Accounting under Pressure: A Behavioural Perspective on Financial Targets, Rationalization, and Fraudulent Reporting

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ABSTRACT

Financial statement fraud, while relatively infrequent, remains the most detrimental form of financial misconduct in terms of the magnitude of losses incurred. This study investigates the extent to which financial targets, external pressure, and rationalization contribute to the occurrence of financial statement fraud within infrastructure companies listed on the Indonesia Stock Exchange during the period 2019–2023. A purposive sampling approach was employed, resulting in a final sample of 95 firm-year observations. The study applied multiple linear regression analysis to examine the hypothesized relationships. The empirical results indicate that financial targets do not exert a statistically significant influence on fraudulent financial reporting. In contrast, external pressure is negatively associated with financial statement fraud, while rationalization exhibits a positive and significant relationship. Collectively, these three factors demonstrate a simultaneous effect on the likelihood of fraudulent reporting. These findings underscore the importance of strengthening risk management frameworks and enhancing internal oversight mechanisms within the infrastructure sector. The results also suggest that cognitive and contextual pressures continue to shape the ethical boundaries of financial reporting behaviour, necessitating greater attention to organizational and psychological drivers of misconduct.

Keywords: Financial Targets; External pressure; Rationalization; Financial Statement Fraud

Pengaruh Target Keuangan, Tekanan Eksternal dan Rasionalisasi Terhadap Kecurangan Laporan Keuangan

ABSTRAK

Kecurangan laporan keuangan, salah satu kasus paling jarang terjadi namun menimbulkan kerugian paling besar. Penelitian bertujuan untuk mengetahui dan menganalisis pengaruh target keuangan, tekanan eksternal dan rasionalisasi terhadap kecurangan laporan keuangan pada perusahaan infrastruktur terdaftar di Bursa Efek Indonesia periode 2019-2023. Pemilihan sampel, metode purposive sampling sebanyak 95 data. Dengan analisis regresi linear berganda. Temuan menerangkan target keuangan tidak memiliki pengaruh, tekanan eksternal memiliki pengaruh negatif dan rasionalisasi memiliki pengaruh positif terhadap kecurangan laporan keuangan. Secara simultan, ketiga faktor berpengaruh terhadap kecurangan laporan keuangan. Implikasi menekankan pengelolaan risiko dan pengawasan internal di sektor infrastruktur.

Kata Kunci: *Target Keuangan; Tekanan Eksternal; Rasionalisasi; Kecurangan Laporan Keuangan*

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INTRODUCTION

Accounting has evolved to serve the growing need for company-specific financial information, most notably in the form of financial reports. The process of financial reporting, typically presented from various perspectives, is formally structured through financial statements (Ashtiani & Rahemi, 2022). Over time, top management has been tasked with communicating both internal and external financial conditions. However, in practice, these responsibilities are not always fulfilled with integrity (Tkachenko et al., 2020). Increasing competition has contributed to the emergence of unethical business practices, including financial misrepresentation, as firms seek to maintain their market position (Kustinah, 2022). Such fraudulent behavior erodes public trust (Duan & Qiao, 2024), generates substantial losses for investors (Hossain et al., 2024), and threatens the long-term viability of firms (Ali et al., 2022). Sustained fraud can diminish investor confidence, ultimately discouraging capital investment (Rashid et al., 2019). As firms attempt to meet market expectations, the incentive to manipulate financial reporting becomes more pronounced (Gaffaroglu & Alp, 2023).

According to the Association of Certified Fraud Examiners (ACFE, 2024), fraud typically involves the abuse of authority for personal enrichment through the misuse of corporate assets or resources. The ACFE classifies fraud into three categories: asset misappropriation (89%), corruption (48%), and financial statement fraud (5%). While financial statement fraud represents the smallest proportion, its financial impact is the most severe. ACFE data from 2022 report 2,110 cases across 133 countries, while in 2024, 1,923 cases were reported across 138 countries. The average loss attributed to financial statement fraud increased from USD 593,000 in 2022 to USD 766,000 in 2024. Within the Asia-Pacific region, Indonesia ranked fourth in reported fraud cases, recording 22 incidents in 2019—representing 9.5% of the regional total (Trihargo, 2019). Although the percentage remains relatively low, the consequences are nonetheless significant.

In Indonesia, instances of financial statement fraud are particularly evident in the infrastructure sector. A notable case involves PT Wijaya Karya (WIKA), which was suspected of misstating its financial position by presenting consistent profits despite persistent negative cash flows (Kompas.com, 2023). Reported net profits declined from IDR 322 billion in 2020 to IDR 12.5 billion in 2022 (Tempo.com, 2023). Similarly, PT Telkom Indonesia incurred state losses of IDR 459.29 billion due to fictitious reporting. An internal investigation conducted between January 2021 and April 2022 revealed discrepancies between work orders and billing data, contributing to misstated financial statements and additional losses of IDR 1.9 billion (MonitorIndonesia.com, 2024).

Prior studies investigating the determinants of financial statement fraud present inconsistent findings. For example, Utami et al. (2022), Aprilia and Furqani (2021), and Oktami et al. (2024) found that financial targets significantly influence fraud, whereas Kadek et al. (2020) found no such effect. Similar contradictions appear in studies examining external pressure: Artana et al. (2023), Darise et al. (2021), Nadia et al. (2023), Oktami et al. (2024), and Wicaksana and Suryandari (2019) identified a significant relationship, while Kadek et al. (2020), Rudianti and Maesaroh (2022), and Lestari and Jayanti (2021) did not. Divergent results also emerge in research on rationalization. While Nurbaiti and Arthami (2023), Triyanto (2020), and Wibawa and Suprasto (2023) found a significant effect, Rudianti and Maesaroh (2022), and Lestari and Jayanti (2021) concluded otherwise. These inconsistencies suggest the existence of a research gap, likely influenced by variations in industry context, analytical methods, and organizational characteristics.

Building on these gaps, the present study focuses on infrastructure companies listed on the Indonesia Stock Exchange, using annual report data from 2019 to 2023. This sector is characterized by high capital intensity, long-term financing dependencies, and frequent government involvement. Such features introduce unique financial reporting risks. If financial management in this sector is not effectively governed, the potential for fraudulent reporting increases.

This research is grounded in agency theory, as developed by Jensen and Meckling (1976), which posits that agency relationships arise when principals delegate decision-making authority to agents. The separation of ownership and control creates opportunities for conflicts of interest and information asymmetry (Purba, 2023). These asymmetries arise because agents—typically corporate managers—possess greater access to internal information than principals, such as shareholders. As a result, agents are often in a position to conceal information, which can facilitate fraudulent financial reporting (Kusumosari & Solikhah, 2021). Left unchecked, such asymmetries not only threaten financial integrity but also place the sustainability of the organization at risk (Jan, 2021).

Fraud theory offers a foundational framework for understanding the underlying motivations and conditions that give rise to fraudulent behavior within organizations (Nadziliyah & Primasari, 2022). One of the most influential models in this domain is the fraud triangle, introduced by Cressey (1953), which posits that fraud occurs when three conditions are simultaneously present: pressure, opportunity, and rationalization (Devi et al., 2021). Financial statement fraud typically involves intentional misrepresentation or omission of financial information, often violating accounting standards (Marais et al., 2023) and legal or regulatory requirements (Kaituko et al., 2023). Common manifestations include falsifying supporting documentation, concealing material information in electronic transactions (Jolaiya, 2024), or manipulating financial data that may not be readily disclosed in statutory financial reports (Ebaid, 2023).

One of the key pressures contributing to fraudulent reporting stems from the pursuit of financial targets. Within organizations, management often faces intense pressure to meet earnings benchmarks or return-based performance indicators within a given reporting period. Vousinas (2019) suggests that internal performance expectations, particularly those related to profitability, can intensify the risk of manipulation. Under agency theory, principals expect agents—namely, management—to deliver results aligned with predefined financial goals. When managers are unable to meet these targets through operational performance, they may resort to earnings manipulation to maintain the appearance of financial stability (Herdjiono & Kabalmay, 2021). Financial targets are often proxied using return on assets (ROA), reflecting a firm's profitability relative to its total asset base. As the desire for rapid growth increases, so too does the temptation for management to distort reported outcomes. Empirical studies by Prayoga and

Sudarmaji (2019) and Santoso (2019) confirm a positive association between financial targets and the likelihood of financial statement fraud.
H_1: Financial targets have a positive effect on financial statement fraud.

External pressure represents another critical antecedent to fraudulent behavior, particularly when firms seek additional funding through debt or equity markets. Such pressure arises from the need to demonstrate financial viability to external stakeholders, including creditors and investors (Herdjiono & Kabalmay, 2021). In many cases, firms respond to these expectations by maintaining overly optimistic financial disclosures to secure necessary capital injections (Maryani et al., 2022). From an agency theory perspective, management acts as the agent responsible for aligning reporting with the expectations of external principals. In doing so, they may selectively disclose positive information or obscure negative indicators to bolster investor confidence (Huric-Larsen, 2024). Leverage, defined as the ratio of total liabilities to total assets, is commonly used to proxy external pressure. Higher leverage levels increase a firm's financial obligations, thereby elevating concerns about repayment capacity (Yulianti et al., 2019). As leverage rises, so does the perceived need to maintain favorable financial reports. Nadia et al. (2023) find that external pressure, measured through leverage, is positively associated with the incidence of financial statement fraud.
H_2: External pressure has a positive effect on financial statement fraud.

Rationalization, the third component of the fraud triangle, refers to the cognitive justification that enables individuals to perceive unethical actions as acceptable. Perpetrators of fraud often frame their behavior as necessary, harmless, or morally defensible under the circumstances (Ratmono & Frendy, 2022). Within the context of agency theory, rationalization enables management to reconcile personal incentives—such as job security, bonuses, or career advancement—with deceptive practices (Mongwe & Malan, 2020). Rationalization is typically proxied by the ratio of total accruals to total assets (TATA), which captures the extent of discretionary accruals embedded in reported earnings. An elevated accrual ratio may reflect management's increased reliance on non-cash accounting adjustments, which, in turn, creates a greater scope for misrepresentation. In the accrual-based accounting system, revenues and expenses are recorded regardless of actual cash flows, allowing room for aggressive financial reporting. As TATA values rise, so does the potential for rationalized misreporting. Nadia et al. (2023) provide empirical support for this relationship, demonstrating a positive link between rationalization and financial statement fraud.
H_3: Rationalization has a positive effect on financial statement fraud.

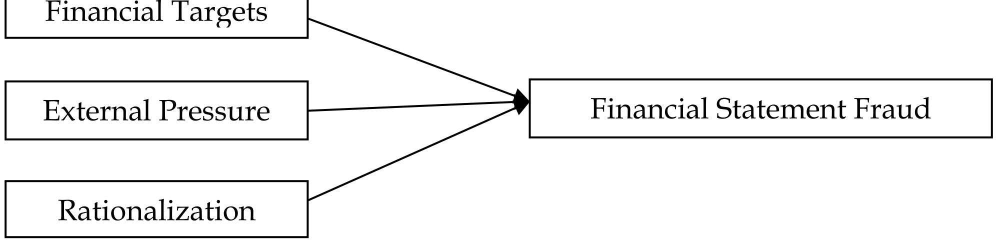

Figure 1. Hypothesis Framework

Source: Research Data, 2024

RESEARCH METHODS

This study adopts a quantitative research approach, utilizing secondary data extracted from the audited financial statements of infrastructure companies listed on the Indonesia Stock Exchange (IDX) over the period 2019–2023. These data were accessed through the official IDX website (www.idx.co.id) and the respective corporate websites. The target population comprises 69 infrastructure firms, from which the research sample was selected using purposive sampling. This method was employed to address the limitations identified in prior studies, which often focus on specific sub-sectors and fail to capture the broader characteristics of the infrastructure industry.

The sample selection criteria were carefully formulated to ensure the consistency and relevance of the data with respect to the research objectives. First, firms must have completed their initial public offering (IPO) prior to 2019 to ensure continuous data availability across the five-year study period. Second, companies were required to disclose complete financial statement data that aligned with the study variables throughout the 2019–2023 timeframe, thereby preserving data integrity. Third, only companies without a record of stock trading suspension during the observation period were included, in order to mitigate potential distortions arising from extraordinary events that could compromise the reliability of financial disclosures. Based on these criteria, a final sample of 19 firms was identified, yielding 95 firm-year observations.

The dependent variable—financial statement fraud—is operationalized using the F-Score model developed by Dechow et al. (2011), as adopted in subsequent studies (e.g., Basmar & Ruslan, 2021). According to this model, firms with an F-Score exceeding the threshold value of 1 are considered to exhibit characteristics indicative of potential financial reporting fraud. The following section outlines the formula used to compute the F-Score.

F-Score = *Accrual Quality* + *Financial Performance*..(1)

Accrual quality using RSST *Accrual*. The originators of this formula, namely Richardson, Sloan, Soliman and Tuna, measured the change in non-cash and non-equity in the formula:

RSST Accrual = $\frac{\Delta \text{WC}+\Delta \text{NCO}+\Delta \text{FIN}}{Average\ Total\ Asset}$…………………………………………………..(2)

Where:

Δ WC *(Working Capital)*	=	*Current Assets – Current Liabilities*
Δ NCO *(Non Current Operating Accrual)*	=	*(Total Assets – Current Assets – Investment and Advance) – (Total Liabilities – Current Liabilities – Long Term Debt)*
Δ FIN *(Financial Accrual)*	=	*Total Investment – Total liabilities*
Average Total Asset	=	*(Beginning Total Assets + End Total Assets)/ 2*

Financial performance measured through accounts receivable turnover, inventory turnover, cash sales turnover and EBIT turnover, the formula is:

Financial Performance = *Change in Receivable* + *Change in Inventories* + *Change in Cash Sales* + *Change in Earnings*...(3)

Where:

Change in Receivable	=	*Receivable / Average Total Assets*

Change in Inventories = *Inventories / Average Total Assets*
Change in Cash Sales = *(Sales / Sales (t)) – (Receivable / Receivable (t))*
Change in Earnings = *(Earning (t) / Average Total Assets (t)) – (Earning (t) / Average Total Assets (t-1)*

Financial target variable (X1) using ROA profitability Skousen et al. (2009) The formula:

$$ROA=\frac{EAT}{Total\ Aset} \quad (4)$$

The independent variable is the external pressure (X2) using the ratio *Leverage* The formula:

$$LEVERAGE = \frac{Total\ Liabilitas}{Total\ Aset} \quad (5)$$

The independent variable is rationalization (X3) measured using the accrual value to assets (TATA) Skousen et al. (2009) The formula:

$$TATA = \frac{Pendapatan - Arus\ Kas\ Operasi}{Total\ Aset_t} \quad (6)$$

Examined using classical assumption test, coefficient determination, partial test (t), and simultaneous test (f). Applying multiple regression analysis formulated:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 \quad (7)$$

Where:
Y = Financial statement fraud (F-Score)
α = A constant of the value of Y when X is zero
β1, β2, β3 = Regression coefficient of each independent variable
X1 = Return *on asset*
X2 = External pressure (*leverage*)
X3 = Rationalization (*total accrual to total asset*)

RESULTS AND DISCUSSION

An overview of the data studied is listed in the descriptive, describing the total amount, mean value of all data and standard deviation reflecting the distribution of data. The following are the descriptive results of table 1.

Table 1. Descriptive Statistical Analysis Results

Variables	Minimum	Maximum	Mean	Std.Deviation
Financial Targets	-0.440	0.240	0.012	0.088
External Pressure	0.240	0.970	0.589	0.172
Rationalization	-0.180	1.190	0.469	0.278
Financial Statement Fraud	-0.810	2.900	0.437	0.564

Source: Research Data, 2024

The descriptive statistics provide an overview of the data distribution across the variables examined in this study. The financial target variable recorded a minimum value of –0.440, indicating instances where financial realization significantly underperformed relative to set targets. The maximum value was 0.240, with a mean of 0.012 and a standard deviation of 0.088. These figures suggest that variations in financial target achievement across firms were relatively minor, implying a generally homogeneous distribution.

The external pressure variable, proxied by leverage, ranged from a minimum of 0.240 to a maximum of 0.970. The mean value of 0.589 suggests that, on average, firms faced moderate levels of external funding pressure. The standard deviation of 0.1724 indicates that while there was some variability in external pressure among firms, the dispersion was not excessively wide.

In contrast, the rationalization variable displayed a broader range, from –0.1800 to 1.190. This spread reflects notable differences in the extent to which companies might justify or rationalize potentially fraudulent reporting practices. The average score of 0.4692 situates the overall tendency toward rationalization at a moderate level, while the standard deviation of 0.278 reveals a reasonably diverse distribution of rationalization behaviors across the sample.

The financial statement fraud variable exhibited the widest range among all variables, with values spanning from –0.8100 to 2.900. This substantial spread highlights the presence of firms with very low, as well as those with markedly high, indications of financial reporting fraud. The mean value of 0.4375 and a standard deviation of 0.5643 suggest a high degree of variability in fraudulent behavior, indicating that financial statement fraud is not uniformly distributed across firms in the sample. Among all variables examined, financial statement fraud demonstrated the greatest level of variation.

The assessment of classical assumption testing is presented in Table 2.

Table 2. Results of Classical Assumption Test Analysis

Test Type	Indicators	Result	Conclusion
Normality Test	*Kolmogorov Smirnov*	Asymp. Initial sig. = 0.001 < 0.05. Abnormal data → 4 extreme samples were removed	Abnormal initial data
	Kolmogorov Smirnov	Asymp. Sig. after repair = 0.172 > 0.05Normal distributed data	Passing the Normality Test
Multicollinearity Test	Tolerance and VIF	All variables meet the criteria Tolerance > 0.1 VIVID < 10	Multicollinearity does not occur
Heteroscedasticity Test	Scatterplot	The points spread randomly above and below the Y axis	Heteroscedasticity does not occur
Autocorrelation Test	Durbin-Watson Score = 2,082	DW is between DU and 4-DU dU < d < 4 – dU 1.7275<2.082<2.2725	No autocorrelation occurs

Source: Research Data, 2024

Prior to conducting hypothesis testing, the data were subjected to classical assumption diagnostics, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. The initial normality test returned an Asymp. Sig. value of 0.001, which is below the significance threshold of α = 0.05, indicating that the data were not normally distributed. To address this, four extreme outliers were removed, reducing the sample size to 91 observations. A subsequent normality test yielded an Asymp. Sig. value of 0.172, exceeding α =

0.05, thereby confirming that the adjusted dataset meets the assumption of normality.

Multicollinearity was assessed through variance inflation factor (VIF) and tolerance values for each independent variable. All VIF values were below 10, and tolerance values exceeded 0.10, indicating the absence of multicollinearity. The heteroscedasticity test, based on the scatterplot of residuals, showed a random distribution of points around the zero line on the Y-axis, suggesting that heteroscedasticity was not present.

Autocorrelation was evaluated using the Durbin-Watson statistic, which resulted in a value of 2.082. As this value lies between the upper bound (DU) and 4 minus DU, it falls within the acceptable range, indicating no evidence of autocorrelation. Having satisfied the classical assumptions, the study proceeded to test the significance of the independent variables through multiple linear regression analysis. The results of this analysis are presented in Table 3.

Table 3. Multiple Linear Regression Analysis Results

Type	Unstandardized Coefficients B	T	Sig.
(Constant)	0,811	3,699	0,001
Financial Targets	0,651	1,189	0,238
External Pressure	-1,087	-3,918	0,001
Rationalization	0,390	2,374	0,020
Adjusted R Square	0,336		
F Value	16,195		
Sig. F	0,000		

Source: Research Data, 2024

Results of the equation with multiple linear regression analysis:

$Y = 0.811 + 0.651\ X1 – 1.087\ X2 + 0.390\ X3$..(8)

The regression results reveal a constant value of 0.811, suggesting that financial targets, external pressure, and rationalization collectively influence the likelihood of financial statement fraud among infrastructure companies. This constant reflects the baseline propensity for fraud in the absence of changes in the explanatory variables. The regression coefficient for financial targets is 0.651, indicating a positive—albeit statistically insignificant—relationship. This suggests that while increased financial performance targets may elevate the likelihood of fraudulent reporting, the effect is not strong enough to be considered significant within the context of this study.

In contrast, the external pressure variable shows a negative regression coefficient of –1.087, implying that firms with higher leverage are less likely to engage in financial statement fraud. Meanwhile, the rationalization variable yields a positive coefficient of 0.390, indicating that increased rationalization—measured through discretionary accruals—correlates with a higher likelihood of fraudulent reporting behavior. Collectively, the model explains 33.6% of the variance in financial statement fraud, as indicated by the adjusted R^2 value. The remaining variance is likely attributable to other unobserved factors such as corporate culture, governance quality, and internal control effectiveness.

The t-test for the financial target variable yielded a value of 1.189 with a significance level of 0.238 (> 0.05), leading to the rejection of H1. This suggests that financial targets, proxied by return on assets, do not significantly affect financial statement fraud in infrastructure companies. While fraud theory (Cressey, 1953) posits that performance pressure can be a trigger for unethical behavior, the results indicate otherwise for this sector. One plausible explanation is that infrastructure firms often operate under long-term business cycles with relatively stable funding arrangements, thereby reducing short-term pressure to manipulate performance. This finding aligns with Afiah and Aulia (2020), who found no significant relationship between financial targets and fraud, but contrasts with Jao et al. (2020) and Utami et al. (2022), who reported a positive association.

The external pressure variable produced a t-value of –3.918 with a significance level of 0.001 (< 0.05), indicating a statistically significant negative effect and supporting the rejection of H2. While this finding diverges from the conventional assumptions of the fraud triangle—which posits external pressure as a driver of fraudulent behavior—it aligns with the logic of agency theory. Companies with high debt levels are often subject to increased scrutiny from creditors, incentivizing more conservative and transparent financial reporting. Moreover, infrastructure firms frequently engage in government-backed or internationally financed projects, which demand elevated standards of accountability. These contextual factors reduce the likelihood that financial stress leads to misreporting. This finding is consistent with Wicaksana and Suryandari (2019) and Aprilia and Furqani (2021), but contrasts with Darise et al. (2021) and Nadia et al. (2023), who reported a positive relationship between external pressure and fraud.

Rationalization produced a t-value of 2.374 with a significance level of 0.020 (< 0.05), indicating a significant positive relationship and supporting H3. This confirms that management's tendency to justify unethical actions correlates with a greater likelihood of financial statement fraud. As accrual values increase, the opportunities for earnings management also expand, enabling managers to rationalize manipulative behavior as acceptable or even necessary within the organizational culture. This finding supports the fraud triangle theory, where rationalization functions as a cognitive mechanism that allows individuals to reconcile unethical conduct with personal or professional values (Cressey, 1953). It also aligns with the findings of Nadia et al. (2023) and Octaviana (2022), though it diverges from Putra and Mildawati (2023), who found no significant effect.

These findings offer important insights into the dynamics of financial statement fraud within the infrastructure sector. Not all components of the fraud triangle exert a uniform or significant influence, highlighting the importance of a multidimensional approach to fraud risk assessment. Specifically, the combination of long-term financing structures and the regulatory oversight that often accompanies debt financing appears to function as an effective deterrent against financial misconduct. In practical terms, the results underscore the need to strengthen ethical leadership, promote a culture of transparency, and enhance internal oversight mechanisms to mitigate the risk of fraudulent reporting.

CONCLUSION

Infrastructure companies are experiencing rapid growth and continue to attract substantial investment from a range of domestic and international stakeholders.

This influx of capital underscores the importance of sound financial management practices to mitigate the risk of financial statement fraud. Although numerous studies have examined the factors contributing to fraudulent reporting, the findings have been varied and, at times, contradictory. The aim of this study was to examine the influence of financial targets, external pressure, and rationalization on financial statement fraud within infrastructure companies listed on the Indonesia Stock Exchange over the 2019–2023 period.

The results indicate that financial targets do not have a significant effect on the incidence of financial statement fraud in the infrastructure sector. Conversely, both external pressure and rationalization were found to significantly influence fraudulent reporting practices. These findings suggest that while performance pressures may be present, it is the broader institutional and psychological environment—specifically, external financing obligations and managerial justifications—that play a more critical role in motivating misreporting. The study highlights the importance of robust risk management practices and enhanced internal oversight mechanisms to deter manipulative behaviors, particularly within capital-intensive sectors such as infrastructure.

Despite these contributions, several limitations must be acknowledged. First, the study focuses solely on infrastructure firms, which limits the generalizability of the findings to other sectors or the broader corporate environment. Second, the indicators employed, while widely used, are relatively general and may not fully capture the specific contextual nuances of individual companies. Third, the study period is restricted to five years, which may not adequately reflect longer-term trends or the evolving nature of financial reporting practices. Fourth, the exclusive use of a quantitative research design constrains the ability to explore underlying behavioral or organizational factors that may contribute to fraud.

Additionally, reliance on secondary data sources introduces potential limitations related to data completeness and accuracy. Future research could address these issues by expanding the scope of the sample to include other sectors, thereby enhancing the breadth of comparative analysis. Employing more granular and company-specific indicators would also improve the validity and contextual relevance of findings. Extending the study period may offer greater insights into the stability of financial reporting practices over time. Researchers are also encouraged to incorporate qualitative methods—such as interviews or case studies—to capture the motivations and experiences of corporate actors. Finally, integrating primary data with secondary sources may yield a more comprehensive understanding of the mechanisms underlying financial statement fraud.

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