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Manipulation of financial statement reporting has an impact on financial information and affects company value

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Abstract

This study aims to determine and analyze the effect of manipulation of financial statement reporting on firm value, as well as the consequences of financial statement information on companies listed on the Indonesia Stock Exchange. This research uses quantitative associative, the sampling technique used is purposive sampling. The sample size for this study was determined based on criteria obtained from 105 property and real estate industry companies listed on the Indonesia Stock Exchange within 5 years. The analysis techniques used include descriptive statistical analysis, panel data regression test, classical assumption test, and path analysis. The results showed that external pressures strongly influence financial statement reporting manipulation, emphasizing the need for organizations to overcome these pressures through alternative financing options. Industry characteristics also play an important role in the occurrence of manipulation, while rationalization and capability have minimal effects. In addition, external pressure, industry characteristics, rationalization, and capability jointly affect financial statement manipulation. Surprisingly, financial statement manipulation or fraud does not have a significant impact on firm value, as signaling theory explains its negative impact on investor confidence and stock prices. This study found that external pressure and industry dynamics play an important role in the incidence of report manipulation, while rationalization and capability.

Keywords

Financial statement reporting manipulation; financial statement information; firm value

INTRODUCTION

Financial statements serve as a crucial source of comprehensive information regarding an entity's financial status, performance, and cash flow. This data plays a vital role in facilitating informed economic decision-making, as emphasized by the Indonesian Institute of Accountants (2022). Consequently, it is imperative for companies to ensure accurate, relevant, and high-quality financial reporting. Unfortunately, the landscape of financial reporting often exposes instances of fraudulent activities, resulting in significant distortions or material misstatements within the financial statements. These fraudulent actions undermine the reliability of financial reports by incorporating misleading elements and deceptive presentations. Consequently, these inaccuracies can have a detrimental impact on users who rely on financial statement information when making decisions (Fauziah et al., 2023).

Management often has a strong drive to enhance the credibility and integrity of their financial statements. Their motivation stems from the desire to present favorable financial outcomes, which ultimately aims to satisfy shareholders and increase the company's stock values. However, in their pursuit of these goals, management may feel compelled to adopt unethical measures to maintain the appearance of their financial statements. These measures can include manipulating financial data, selectively

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reporting financial metrics, or misrepresenting key financial indicators. All of these actions are intended to create a more positive perception of the company's financial health and performance. This highlights the crucial need for ethical governance and robust regulatory frameworks that ensure transparency and accuracy in financial reporting practices. Such measures foster trust and confidence among stakeholders and investors.

Based on the survey results, Corruption is identified as the costliest type of fraud in Indonesia (ACFE, 2020). A substantial 64.4% of the participants emphasized corruption as the most damaging form of fraud in the nation. In a close second, 20.9% of the respondents recognized the misappropriation of state and company assets as a significant contributor to financial losses. Furthermore, 22 individuals, comprising 9.2%, attributed the losses to financial statement fraud.

The ACFE is actively involved in combating fraudulent activities through preventive measures, such as educational initiatives. According to ACFE (2020), fraudulent behavior within companies can be characterized by three primary aspects, one of which is referred to as the "fraud tree." This concept encompasses the misuse of assets, corruption, and manipulation of financial statements. The purpose of financial reporting fraud, also known as fraudulent financial reporting, is to deceive stakeholders through intentional misrepresentations, omissions, or misleading disclosures in financial statements. If left unaddressed, this type of fraud can persist. Extensive research consistently identifies pressure, opportunity, and rationalization as the key drivers that compel individuals to engage in financial statement fraud.

Cheating is an act that is detrimental or corrupt. In general, fraud will always occur if there is no prevention and detection. Unidentified weaknesses in internal controls can lead to fraud (Hamdani & Albar, 2016; Herman, 2013). There are three conditions that always exist in the act of cheating, namely pressure, opportunity, and rationalization which is referred to as the cheating triangle (Faradiza, 2019; Utami et al., 2017). To improve fraud prevention and detection, a fourth element, "capability", was introduced. Previous studies believed that "a lot of fraud would not happen without the right people with the right capabilities implementing the details of the fraud" resulting in The New Fraud Diamond (Ruankaew, 2016; Rustiarini et al., 2019). In this case, one way and perspective to review and detect fraud is with the perspective of fraud diamonds (Asih & Sunaryanto, 2022).

Previous research stated that financial statement fraud is closely related to profit manipulation actions carried out by management (Huang, 2006; Myers et al., 2007). Management has an important role in a company and has the responsibility to optimize the owner's profits, but on the other hand the manager also has an interest in maximizing his own welfare (Priantinah, 2009; Putri & Suprasto, 2016). It is this difference that can affect the quality of reported profits. The huge increase in financial statement fraud and business failures has raised concerns about the validity of a company's financial statements.

The property and real estate industry in Indonesia is currently grappling with a significant fraud case that requires immediate attention. The research focuses on property and real estate companies due to the increasing number of project developers involved in constructing various types of housing, such as houses and apartments. The growth of this sector provides an environment that is susceptible to fraudulent activities. One specific fraud case that has emerged within the real estate and property sector involves PT Hanson Internasional Tbk's manipulation of financial statements. This manipulation specifically pertains to the accounting presentation of revenue generated from the sale of ready-to-build lots (Kasiba), resulting in a substantial overstatement of revenue in the financial statements for that year, amounting to Rp 613 billion. PT Hanson Internasional Tbk has

been found to have violated certain regulations and standards.

PT Hanson Internasional Tbk did not meet the requirements outlined in Statement of Financial Accounting Standards 44, which relates to Accounting for Real Estate Activities (PSAK 44). In particular, when using the full accrual method to recognize revenue, the company was required to disclose the Sale and Purchase Agreement (PPJB). Unfortunately, PT Hanson Internasional Tbk failed to provide the PPJB to the auditor responsible for auditing the financial statements (source: https://www.kompasiana.com/ 17 July 2022).

The concept of Fraud Diamond has similarities with the Fraud Triangle theory, but has a broader perspective. According to Permatasari & Laila (2021), the capability component of the Fraud Diamond is an additional element to complete the Fraud Triangle. Various theories propose analytical methods to assess the potential for financial fraud, one of which is the Fraud Triangle. The triangle consists of three factors: pressure, opportunity, and rationalization, identified by Cressey in Sihombing & Rahardjo (2014) as a key element to prevent financial statement fraud. Moreover Wolfe & Hermanson (2004) Introducing a fourth factor, capability, which refers to an individual's ability to conduct fraudulent activities in financial statements. These four factors collectively make up the Fraud Diamond. The elements of Fraud Diamond include pressure (obstacles to fraud in financial statements), opportunity (opportunity to commit fraudulent activities in financial statements), rationalization (factors that prevent individuals from committing fraud in financial statements), as stated by Prakoso & Setiyorini (2021) and Rengganis et al. (2019).

The results showed (Safiq & Seles, 2019) that external pressure affects the probability of financial statement fraud. In line with research (Nuraini, 2019) shows that there is an influence between financial stability and external pressure on fraudulent financial statements and can be used to detect fraud. But not in line with (Istikhoroh et al., 2021) which states that external pressure has no effect on financial statement fraud. Meanwhile, research by Prihatini (2021) shows that capability has a significant effect on financial statement fraud. However, research results of Nurbaiti & Cipta (2022) provides different findings, where capability has no effect on financial statement fraud.

This research provides theoretical contributions related to the effect of financial stability, external pressure, and ineffective monitoring of financial statement fraud. These theoretical implications can enrich understanding of the factors that influence fraud in the context of corporate finance. In addition, research also links the Diamond Fraud theory with the detection of financial statement fraud in manufacturing companies and the food and beverage industry on the Indonesia Stock Exchange. This provides deeper theoretical insights into the applications of Diamond Cheating theory in industry-specific contexts. In addition, the research also highlights the importance of understanding the relationship between external pressures, financial targets, and financial difficulties with financial statement fraud. These theoretical implications can help develop an understanding of the external factors that influence fraudulent behavior in the context of corporate finance. Thus, this research makes an important contribution in the development of financial fraud theory and its application in specific industry contexts.

There are several managerial implications that can be considered. First, management needs to increase transparency in financial reporting to reflect the true value of the company. This can help strengthen investor confidence and reduce the risk of financial statement fraud. Second, management must be able to manage external pressures that can influence company decisions. With a good understanding of external pressures, management can take appropriate steps to maintain the integrity of the company. In addition, a deep understanding of the industry in which the company operates is also important. By understanding the characteristics of the industry, management

can identify potential risks of financial statement fraud and take appropriate preventive measures. The implementation of fraud early detection systems, such as the F-Score model, can also help management become more proactive in identifying and preventing fraud. Finally, increased supervision and monitoring of financial activities, especially related to accounts receivable and inventory, can help reduce the risk of financial statement fraud and improve the reliability of financial information presented. By paying attention to these managerial implications, it is expected that companies can improve financial performance, minimize the risk of fraud, and increase overall company value.

The current investigation is built upon previous studies that have emphasized the lack of agreement and the wide range of outcomes regarding the factors that contribute to financial statement fraud. The specific variables chosen for this research have been selected based on the components inherent to the Fraud Diamond, which is considered a more recent and advanced framework compared to the traditional Fraud Triangle. The decision to adopt the Fraud Diamond framework is motivated by its relative novelty and limited application in identifying fraudulent financial activities.

The property and real estate industry in Indonesia suitables to be the object of research because of the large role of this sector in the national economy and the high number of cases of manipulation of financial statements recorded in the industry, such as what happened to PT Hanson Internasional Tbk. These cases show that external pressures and industry characteristics can drive manipulative actions that harm stakeholders. Given the significant impact of manipulation practices on investor perceptions and firm value, understanding the factors that influence such actions can help in creating a better monitoring system, improving the quality of financial statements and protecting stakeholders.

The gap in the current literature lies in the limited exploration of how external pressures and industry characteristics uniquely influence financial statement fraud and its impact on firm valuation. This study aims to fill this gap by examining the relationship between financial statement manipulation and its implications for firm value, considering the mediating effects of external pressures and industry characteristics.

Based on the above background, this study aims to analyze the effect of financial statement manipulation on firm value and the factors that influence it, such as external pressure, industry characteristics, rationalization, and capability.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Theory fraud diamond

The concept of Fraud Diamond, introduced by Wolfe & Hermanson (2004), offers a fresh perspective on the phenomenon of fraud. It serves as an enhancement to the "Fraud Triangle" theory by Clinard & Cressey (1954). Clinard & Cressey (1954) original research focused on 113 individuals involved in embezzlement within various companies, aiming to identify the underlying motivations behind their fraudulent actions. However, as time progressed, an additional factor emerged that plays a crucial role in driving individuals towards fraud. This factor, known as Capability, is a qualitative element introduced by the Fraud Diamond theory, which is believed to exert a significant influence on fraudulent behavior.

1) Fraud Diamond Element

Clinard & Cressey (1954) original fraud model has undergone refinement resulting in the Fraud Diamond theory, which encompasses multiple components, including:

a) Incentive/Pressure

Economic pressure is connected to an individual's lifestyle, while nonfinancial pressure is associated with greed and a lack

of financial discipline. At the organizational level, supervisors or colleagues may need to manipulate figures, policies, and guidelines to fulfill a particular requirement (PEPRAH, 2018).

Every wrongdoer must confront a certain form of coercion to carry out deceit. The motivation that drives the wrongdoer to partake in immoral conduct is known as perceived pressure. This particular form of pressure can manifest itself among all individuals and at every hierarchical level within the organization, and can arise due to diverse factors (Ruankaew, 2016).

b) Opportunity

Opportunity arises when weak internal control, inadequate supervision, or a strategic position come into play. By leveraging a specific condition or position, an individual gains the freedom to oversee the interests of numerous individuals. As Ruankaew (2016) suggests, opportunity stems from the absence of structure and governance in managing a company's operations and asset utilization. It is the vulnerability in internal control that serves as the main catalyst for fraudulent activities to take place.

c) Rationalization

Rationalization is the process of justifying one's thoughts when engaging in criminal acts. Detecting fraud, such as earnings management, becomes challenging due to the elusive nature of rationalization. Earnings management involves management's decision-making process, which can potentially facilitate financial statement fraud (Rasiman & Rachbini, 2018).

Rationalization grants fraudsters the ability to perceive their illicit deeds as permissible. Justifications, such as succumbing to the allure of fraud due to the belief that their colleagues partake in similar acts without facing repercussions, serve to rationalize the occurrence of fraud. Ultimately, this act of rationalization merely leads to the evasion of accountability for the fraudulent acts committed, particularly when the perpetration of fraud persists unabated (Zulaikha & Hadiprajitno, 2016). Ultimately, this act of rationalization merely culminates in the absolution of the fraud that has transpired, particularly if the fraudulent activities persist without interruption.

d) Capability

The ability to make the most of one's surroundings is known as capacity or capability. This skill is often used to bypass internal controls and legitimize actions that are forbidden within an organization. Arles (2014) highlights the connection between this concept and the Fraud Diamond theory, which focuses on the motivation behind an individual's actions. This can include following established SOPs or straying from the expected course of action.

Pressure can push people to act in negative ways, often coming from higher-ups who demand tribute or require a certain amount of funds to be deposited as a reward for securing a work project budget. Weak internal controls or improper management can create opportunities for corruption, as can relationships between goods providers and contractors that allow for manipulation of tenders, prices, and licensing requirements. This can lead to non-compliance with procurement specifications and the giving of gratuities.

Hypothesis development

The term "excessive external pressure" denotes the immense and often overwhelming expectations thrust upon the management of a company, compelling them to fulfill the various requisites and anticipations set forth by external entities. These external entities typically encompass a range of stakeholders, including investment analysts, investors, and creditors, who wield substantial influence over the company's operations and strategic decisions. To effectively navigate these formidable pressures and sustain their competitive edge within the market, companies might opt to pursue additional avenues for financing, such as acquiring more debt or seeking external funding from diverse sources, including research funding, developmental investments, or capital expenditures

(Skousen et al., 2009). The imperative for securing external funding arises in direct correlation to the inflow of cash generated from the process of debt financing, as emphasized by Skousen et al. (2009). It is important to recognize that when confronted with an excessive external pressure scenario, the management may be inclined towards resorting to unethical practices, including the manipulation of financial statements, as a means to meet these mounting external demands.

External pressures can influence financial statement fraud through economic, industrial, market, shareholder, creditor, and government/regulatory pressures. For example, poor economic conditions or high industry competition may prompt management to manipulate financial statements to maintain stock prices or meet market expectations. Pressure from external parties such as shareholders or creditors can also be a motivating factor to commit fraud in order to achieve certain goals (Artana et al., 2023).

H1: External pressure has a positive effect on financial statement fraud.

The term "nature of the industry" embodies the optimum operational state of a company or organization within its respective industry. One critical aspect within the purview of the industry's nature pertains to the status of a company's accounts receivable. A proficiently managed company typically endeavors to curtail the volume of its outstanding accounts receivable while concurrently augmenting the influx of cash receipts (Skousen & Twedt, 2009b).

Specifically, the opportunity for financial statement fraud is projected with the nature of industry and ineffective monitoring, because weak monitoring allows fraudulent activities, especially in accounts receivable and inventory which are part of the nature of industry (Wilantari & Ariyanto, 2022). The ratio of changes in total inventory can be a tool to measure the nature of industry, and when the ratio of changes in total inventory has a high value, the possibility of financial statement fraud in the company is also higher (Febriani et al., 2022).

(Dalnial et al., 2014) Unveil a substantial volume of receivables in sales serves as an indicator of accounts receivable posing a heightened risk of manipulation, thereby rendering them vulnerable to potential instances of financial statement fraud. Moreover, Dalnial et al. (2014) revealed that the prominence of receivables in revenue significantly influences the likelihood of fraudulent activities. Research results Aprian & Fauzi (2023) revealed that the Nature of Industry (REC) has a significant influence on fraudulent financial statements. Conversely, Ariyani et al. (2015) (cited in Dsikowitzky et al., 2017) posit that the nature of the industry does not exert any discernible influence on the probability of fraudulent occurrences within financial statements.

H2: Nature of Industry has a positive effect on Financial Statement Fraud.

Fraudulent activities, often fueled by rationalization, push company management to engage in deceitful actions despite their initial hesitance. The accrual principle, as highlighted by Sihombing (2016), is intricately connected to management decision-making and provides valuable understanding into the rationalization process within financial reporting.

Rationalization, as researched by Task (2012), suggests that top management perceives their fraudulent actions as a viable risk. Skousen &; Twedt (2009) further explain that rationalization influences the subjective assessment of a company, which in turn affects its accrual value. To explore the implications of rationalization in the context of financial statement fraud, the present study has chosen to utilize the metric of Total Accruals to Total Asset (TATA) as a stand-in measurement. Interestingly, the findings of Ardiyani & Sri Utaminingsih (2015) revealed an absence of any statistically significant correlation between rationalization and fraudulent activities within financial

statements. This discovery hints at a constrained implementation of management policies and potentially suggests a motive underlying the manipulation of earnings.

H3: Rationalization has a positive effect on Financial Statement Fraud.

The process of transitioning between boards of directors involves the transfer of authority from the preceding board to the incoming one, with the ultimate objective of enhancing the overall management performance within the organization. However, this transitional phase often fosters a stressful environment, thereby augmenting the potential for financial statement fraud. The initial stages of the directorial transition necessitate a period of adaptation, which may consequently lead to suboptimal company performance.

This study basically aims to show how messing with the board of directors can affect the chances of financial statement fraud. According to Wolfe & Hermanson (2004), if the board isn't up to scratch, it could be a sign that something fishy is going on. The relationship between capability and financial statement fraud is complex and does not always have a direct impact, although capability is one of the elements in Diamond Fraud Theory. Some managerial attributes such as CEO experience and education, as well as factors such as similarity in age and number of executives, show a correlation with fraudulent behavior, indicating that certain managerial characteristics may facilitate fraud (Masitah, 2024; Putri & Suryani, 2024). However, research also shows that director turnover, as an indicator of capability, does not have a significant influence on financial statement fraud, which suggests that other factors such as pressure and opportunity may be more instrumental in driving fraud (Maulida et al., 2024; Yulianti et al., 2024). As such, while ability does not directly cause fraud, a more thorough preventative approach is still needed by considering other factors in the fraud triangle or diamond. They also think that shaking up the board could actually make the company do better.

H4: Capability has a positive effect on Financial Statement Fraud.

The impact of financial fraud on company performance is worth considering. According to Finerty, Hedge, and Malone (2016), financial fraud compels the individuals or entities involved to engage in fraudulent activities, ultimately drawing attention to the company's financial performance. Finerty, Hedge, and Malone (2016) further argue that the performance of a company after some time before the fraud may face an inevitable shock.in The next theory is signaling theory.

According to Jama'an in Suryani & Herianti (2015), Signaling theory revolves around the art of elegantly conveying a company's message to the discerning users of financial statements. This exquisite signal takes the form of a meticulously crafted narrative, revealing the profound endeavors undertaken by the company to manifest the heartfelt desires of its esteemed owner. This is an indication that fraud has an adverse effect on the performance of an organization. financial targets that are too high are considered to put pressure on management so that they are considered capable of increasing the possibility of financial statement fraud.

H5: Financial Statement Fraud Has a Positive Effect on Firm Value.

METHODS

Construct measurement

This study used an associative quantitative approach. The sampling technique used is *purposive sampling*. The sample size for this study was determined by the following criteria:

1. Property, real estate*, and* building construction *companies* listed on the IDX in the 2017-2021 period.
2. Property and real estate companies that inconsistently submit their financial statements during the period 2017-2021.
3. Companies that do not submit complete data during the observation period are related to the variables used.

Data collection

It was obtained from 105 property and real estate companies listed on the Indonesia Stock Exchange over a period of 5 years. The data used in this study was obtained from the Indonesia Stock Exchange website through the http://www.idx.co.id/ website. The data is in the form of financial statements for the 2017-2021 period.

Analysis technique

Analysis techniques used include descriptive statistical analysis, panel data regression testing, classical assumption testing, and path analysis. According to Ghozali (2014), in selecting panel data regression can be done using several models, namely *Pooled Least Square* (PLS) or *Common Effect Model* (CEM), *Fixed Effect Model* (FEM), and *Random Effect Model* (REM) / *Error Component Model* (ECM). The panel data model equation is as follows:

PBV = $\boldsymbol{\alpha}$ + β1F-Score + β2LEV + β3RECEIVABLE + β4TATA + β5Dummy +e

Description:

PBV = Company Value
α = Constant
β1-β5 = Regression coefficient
F-Score = Financial statement fraud
LEV = External Pressure
RECEIVABLE = Nature of Industry
TATA = Rationalization
Dummy variable= Capability
e = error

Common Effect Model (CEM) is a panel data regression model that combines time series and cross section data with a least squares approach and can use the pooled least square method. The assumptions of this common effect model are:

Yit = $\boldsymbol{\alpha}$ + βXit + eit

Description:

Y = Dependent variable
α = Constant
β = Regression coefficient
X = Independent variable
i = cross section
t = time seriese = error

Fixed Effect Model (FEM) is a panel data regression model that has different effects between individuals and individuals are unknown parameters and can be estimated through the least square dummy technique. The assumptions of the fixed effect model are as follows:

Yit = $\boldsymbol{\alpha}$ + β1Xit + β2Xit + β3Xit + β4Xit + eit

Description:

Y = Dependent variable
α = Constant
β = Regression coefficient
X = Independent variable
i = cross section
t = time series
e = error

Random Effect Model (REM) is a panel data regression model that has a difference with the fixed effect model, the use of the random effect model is able to save the use of degrees of freedom so that the estimation is more efficient. The assumptions of the random effect model are as follows:

Yit =$\boldsymbol{\alpha}$ + β1Xit + β2Xit + β3Xit + ...t + βnXit + eit

Description:

Y = Dependent variable
α = Constant
β = Regression coefficient
X = Independent variable

i = cross section

t = time series

e = error

A dependent variable or dependent variable is a variable that is influenced by an independent variable. The variables used in this study are *fraudulent financial statements* and *Company Value*.

Table 1.
Operational definition

No	Variable	Measurement	Scale
1	Financial statement fraud (Y)	F-Score = Accrual Quality + Financial Performance	Ratio
2	Company Value (Z)	PBV = $\frac{Share\ price\ per\ share}{Book\ Value\ per\ share}$	Ratio
3	External Pressure (X1)	LEV = $\frac{Liabilities}{Total\ Aset}$	Ratio
4	Nature of Industry (X2)	RECEIVABLE = $\frac{(\frac{receivable_t}{sales_t})}{(\frac{receivable_{t-1}}{sales_{t-1}})}$	Ratio
5	Rationalization (X3)	TATA = $\frac{(\text{Net Income from Continuing Operations} - \text{CF from Operations})}{Total\ Asset}$	Ratio
6	Capability (X4)	Dummy variable, code 1 if there is a change of directors in the company, code 0 if nit	Dummy

Source: Panel Data Regression Output (2024).

Detection of financial statement fraud in this study uses the Fraud Score Model or F-Score. The F-score is known by summing two variables, namely the quality of accruals and financial performance (Skousen & Twedt, 2009a).

Company Value is the fair value of a company that describes an investor's point of view of a particular issuer. One way to measure company value is to use *Price to Book Value* (PBV). PBV is a ratio used to measure the stock price of a company to book value (Rusdi, 2014).

While the independent variable is an independent variable that affects the dependent variable. Independent variables in this study include:

External Pressure, is a lot of pressure for management in undertaking qualifications or trust given from third parties. External funding needs are related to cash generated from operating and investment activities (Skousen & Twedt, 2009b). Therefore, the leverage ratio (LEV) was chosen to be a proxy *external pressure*.

Nature of Industry is an ideal condition for companies, where what companies do results in profits. Bad debts and inventory using is one account that managers can play. In this study *Nature of Industry* is proxied using the Total Receivables Ratio.

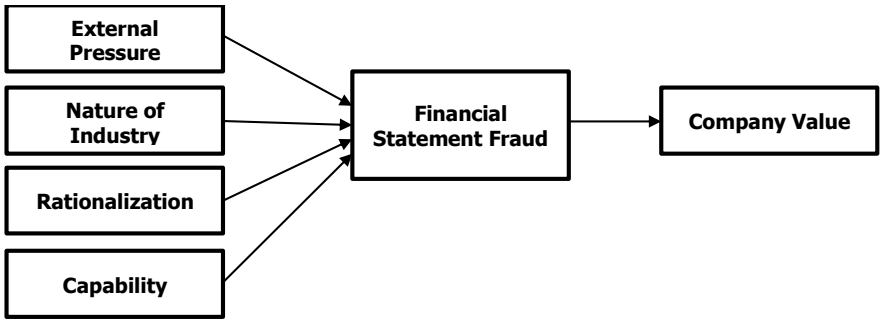

Figure 1.
Research framework

Table 2.
Descriptive characteristics

Criterion	Sum
Property, real estate, and building construction companies listed on the IDX in the 2017-2021 period.	48
Property and real estate companies that do not consistently submit their financial statements during the period 2017-2021	(13)
Companies that do not submit complete data during the observation period are related to the variables used.	(14)
Company Sample	21
Research Period	5
Number of Research Data Samples (21 samples x 5 years)	105

Source: Panel Data Regression Output (2024).

Rationalization is calculated using the ratio of total accruals (TATA), the formula for calculating accruals by Beneish (1997) can be used.

Capability is represented by a dummy variable that indicates a change in company directors (DCHANGE).

RESULTS AND DISCUSSION

In this section of the study, we will examine the application of panel data modeling, assess the underlying assumptions, and analyze the results obtained from panel data regression.

Descriptive analysis result

Based on table 2 which presents descriptive characteristics related to property, real estate, and building construction companies listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period, it can be seen that there are a total of 48 companies listed in the industry. However, of these, as many as 13 companies were inconsistent in submitting their financial statements during the 2017-2020 period. In addition, there were 14 companies that did not submit complete data throughout the observation period related to the variables used in this study. The sample used in this study consisted of 21 companies, with the research period spanning five years, namely from 2017 to 2021. Thus, the total amount of data used in this study was 105 data (21 samples x 5 years). This characteristic analysis provides an overview of the inconsistencies and completeness of data that are of important concern in this study, and highlights the complexity of collecting appropriate and relevant data in the context of the property, real estate, and building construction industries in IndonesiaBased on the table 3, it can be seen that the average value (mean) of the independent variable profitability (X1) has an average of 0.403962 with a standard deviation of 0.161511. The standard deviation which is smaller than the mean indicates a small distribution of data variables or the absence of a large enough gap between the lowest and highest external pressure (X1). The data used in the external pressure variable has a small distribution so the data deviation in this financial fraud statement can be said to be good.

The independent variable Nature of industry (X2) has an average of -0.013524 with a standard deviation of 0.197863. The standard deviation which is greater than the mean indicates a large distribution of variable data or a large enough gap between the lowest and highest Nature Of industry (X2).

Table 3.
Descriptive statistics

	X1_ External _pressure	X2_ Nature_ f_industry	X3_ Rationali zation	X4_ Capability	Y_ Financial_ statement_ Fr	Z_pbv
Mean	0.403962	-0.013524	0.166000	0.180952	0.657143	137.1078
Median	0.384000	0.000000	0.150000	0.000000	1.000000	82.30000
Maximum	0.835000	0.500000	0.590000	1.000000	2.000000	761.4100
Minimum	0.073000	-0.960000	0.020000	0.000000	-2.000000	0.290000
Std. Dev.	0.161511	0.197863	0.101760	0.386825	0.662579	166.4976
Skewness	0.238878	-2.094683	1.440201	1.657482	-0.292507	2.185244
Kurtosis	3.034864	12.45667	5.930448	3.747246	4.244643	7.128600
Jarque-Bera	1.003914	468.0347	73.86856	50.51970	8.274781	158.1410
Probability	0.605345	0.000000	0.000000	0.000000	0.015964	0.000000
Sum	42.41600	-1.420000	17.43000	19.00000	69.00000	14396.32
Sum Sq. Dev.	2.712936	4.071596	1.076920	15.56190	45.65714	2883030.
Observations	105	105	105	105	105	105

Source: Panel Data Regression Outpu (2024).

The independent variable Capability (X4) has an average of 0.180952 with a standard deviation of 0.386825. A standard deviation greater than the mean indicates a large distribution of variable data or a large enough gap between the lowest and highest Capability (X4).

The dependent variable Financial Statement Fraud (Y) has an average of 0.657143 with a standard deviation of 0.662579. A standard deviation greater than the mean indicates a small distribution of variable data or the absence of a large enough gap between the lowest and highest Financial Statement Fraud (Y).

The dependent variable firm value (Z) has a value of 137.1078 with a standard deviation of 166.4976. A standard deviation greater than the mean indicates a small distribution of variable data or the absence of a large enough gap between the lowest and highest firm value (Z).

Based on the results of paired testing of the two models, namely the Chow test and the Hausmant test, it can be concluded that only the Chow test uses the fix effect model and the Hausmant test uses the Random Effect Model (REM), so it must be concluded using the Lagrange Multiplier (LM) test. in the panel data regression method used further to estimate and analyze this research on 21 real estate companies listed on the Indonesia Stock Exchange during the 2017-2021 period in the table below:

Panel data regression analysis

The test conducted clearly demonstrates that the fixed effect model is the optimal choice for interpreting panel data regression in response to this research. The results obtained from the panel data regression test using the random effect model in this study are as follows:

Table 4.
Conclusion test
Panel data regression model second model

No	Methods	Testing	Result
1	Chow- Test	Common Effect vs Fixed Effect	Fixced Effect
2	Hausman Test	Fixed effect vs Random Effect	Random Effect Model
3	Lagrage Multiplier Test	Random Effect Model (REM)	Random Effect Model (REM)

Source: Data processed (2024).

Panel data regression analysis of model one

The coefficient for External Pressure in the regression analysis is -1.369415, indicating that a decrease in external pressure by 1 leads to a decrease in Financial Statement Fraud by -1.369415, holding other variables constant. The prob value of External Pressure is 0.0048< 0.05, suggesting that it has a partial impact on Financial Statement Fraud. The negative effect of external pressure on financial statement fraud indicates that when external pressure decreases, the level of fraud in financial reporting also tends to decrease. One reason is that companies under external pressure often feel compelled to manipulate financial statements in order to continue to meet the expectations of outsiders such as creditors or investors. In this situation, companies may manipulate reports to maintain financial stability and a good corporate image in the market.

According to previous research by Skousen et al. (2009), External pressures, such as from creditors or market demands, often influence financial statement fraud because companies feel the need to meet high external targets. Other studies have also found similar results, that external pressures encourage companies to carry out financial manipulation in order to continue to meet expectations or maintain an image in the eyes of the public (Sihombing & Manda, 2017).

These findings support previous research by Riskiani & Yanto (2020), which also found similar results. Previous research by Fadilah and Wahidahwati (2019) showed that management's habit of working with external auditors who have good performance can prevent fraud in financial reporting. In this context, the rotation of auditors is not a significant factor because the company still maintains integrity and ethics in its financial reporting. The research also shows that rationalization fraud is not a common practice in the companies studied. Therefore, despite the change of auditors, companies still do not cheat because they have established a corporate culture that does not allow such practices.

Panel data regression analysis of model two

The Nature of Industry variable has a coefficient of -1.524641, which carries great significance. Its negative value indicates that even a slight decrease in the essence of Industry will result in a corresponding decrease in Financial Statement Fraud, with a magnitude of -1.524641, while keeping all other independent variables constant. The significance value of the Nature of Industry variable is an astonishingly minuscule 0.000, below the esteemed threshold of 5% (0.05), allowing us to confidently conclude that the Nature of Industry has a remarkable positive influence on Financial Statement Fraud.

Table 5.
Model one panel data regression results

Variable	Coefficient	Std Error	t-Statistic	Prob.
X1_EXTERNAL_PRESSURE	-1.369415	0.474451	-2.886316	0.0048
X2_NATURE_OF_INDUSTRY	-1.524641	0.263458	-5.787033	0.0000
X3_RATIONALIZATIONS	-0.037750	0.709077	-0.053239	0.9576
X4_CAPABILITY	-0.048032	0.155014	-0.309855	0.7573
C	1.204674	0.211495	5.696000	0.0000
Effects Specifications				
			SD	Rbo
Cross-section random			0.263362	0.2128
Idiosyncratic random			0.506566	0.7872

Source: Eviews data processing results (2024).

When the "essence" or optimal conditions of an industry decline (for example, if industry standards weaken or market conditions deteriorate), FSF tends to decline as well. This suggests that under less ideal industry conditions, there may be fewer opportunities or incentives for manipulation. However, this result may seem contradictory when viewed from its positive significance. Previous research has discussed how industry characteristics (such as competitive intensity or receivables management) can affect the likelihood of fraud in different ways. Study by Skousen & Twedt (2009a) suggest that industries with high competition or reliance on receivables are more vulnerable to FSF due to increased pressure to meet financial targets, while Riskiani & Yanto (2020) found that favorable industry conditions often correlate with a decrease in fraud cases, as optimal operating conditions reduce the need for fraudulent reporting.

The regression analysis reveals a noteworthy coefficient of -0.037750 for the Rationalization variable. This negative coefficient indicates that a decrease of 1 in Rationalization corresponds to a decrease of -0.037750 in Financial Statement Fraud, while keeping all other independent variables constant.

The negative effect of the Rationalization variable on Financial Statement Fraud arises because rationalization is often used by individuals to justify fraudulent acts that are not in accordance with their personal values or ethical standards. When this rationalization decreases, one's tendency to commit fraud also decreases. In other words, individuals who no longer feel the need to rationalize their actions are less likely to commit fraud. This is in line with the Fraud Diamond theory, which states that rationalization is one of the key factors in the fraud process.

However, the results of this study are not in line with opinions (Faradiza & Suyanto, 2017), (Rasiman & Rachbini, 2018) who argue that rationalization can be used as an indicator to detect fraud in financial statements. Their opinion suggests that rotation of auditors can affect the likelihood of fraud due to changes in the relationship between management and auditors.

The existence of risks that arise in the company that involves many estimates and considerable consideration is one of the opportunity factors so that the company's financial statements always make estimated accounts such as bad debts accounts and bad debts inventory and inventory accounts. Intentional errors become opportunities for management to commit fraud in inventory balance estimation and according to (Skousen & Twedt, 2009b) Management will always focus on estimating bad debts accounts and estimating obsolete inventory accounts if it has the intention to commit such fraudulent acts.

Table 6.
Model two panel data regression results

Dependent Variable : Z_PBV
Method : Panel EGLS (Cross-section random effect)
Date : 03/16/23 Time : 00:24
Periods included : 5
Cross-sections included : 21
Total panel (balanced) observations : 105
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	T-Statistic	Prob.
Y_FINANCIAL_STATEMENT_FR	-7.144451	9.938173	-0.718890	0.4738
C	141.8027	36.38477	3.897310	0.0002
Effect Specification				
			S.D	Rho
Cross-section random			162.2144	0.8989
Idiosyncratic random			54.39106	0.1011
Weighted Statistics				
R-squared	0.005017	Mean dependet var		20.33230
Adjusted R-squared	-0.004643	S.D dependent var		54.13021
S.E of regression	54.25572	Sum squared resid		303199.3
F-statistic	0.519384	Durbin-watson stat		1.143710
Prob (F-Statistic)	0.472737			
Unweighted Statistics				

Source: Eviews data processing results (2024).

The regression analysis provides an interesting insight into the Capability variable, showing a significant regression coefficient of -0.048032. This negative coefficient suggests that even a slight decrease in Capability by 1 unit will result in a corresponding decrease in Financial Statement Fraud by -0.048032, assuming all other independent variables remain constant.

This finding is quite surprising because Capability is usually considered a supporting factor for fraud in the Fraud Diamond framework. Wolfe & Hermanson (2004) proposes that individuals with specialized skills or positions that allow them to override internal controls are more likely to commit fraud.

However, some studies show that Capability does not always have a direct positive relationship with FSF. Aulia (2018) and Fuadin (2017) found that Capability has no significant effect on FSF. This could be due to contextual factors such as internal controls, corporate culture, or the presence of ethical governance, which limit the influence of individual capabilities on fraud.

However, the significance value of the Capability variable, which is obtained at a high 0.7573 > 0.05, raises doubts about its impact. This lack of statistical significance allows us to confidently conclude that "Capability does not have a significant effect on financial statement fraud." The results showed that capability did not affect the potential for financial statement fraud. Basically, financial statement fraud is owned by those who have the ability to do it. Wolfe & Hermanson (2004) argues that fraud will not occur if it is not done with the right people who have the ability to be able to carry out the act. However, in this study, the capability proxied by the change of directors had no effect against potential financial statement fraud. The change of directors made by the company to replace the old directors with new ones to be able to further advance the company is not because the old directors take advantage of their ability to commit fraud.

The results of this study are in line with Aulia (2018) and Fuadin (2017) which states if capability does not affect the potential for financial statement fraud. As for the research from Fikri (2017) which states if capability cannot be used to predict the occurrence of financialstatement fraud.

The regression analysis reveals that a 1.204674 increase in External Pressure, Nature of Industry, Rationalization, and Capability corresponds to a 1.204674 rise in financial statement fraud, assuming all other independent variables remain constant. Additionally, the computed Prob (F-statistic) value of 0.00, below the significance threshold of 0.05, indicates the combined and simultaneous influence of these variables on the occurrence of financial statement fraud.

The nature of the Industry has a tremendous positive influence on Financial Statement Fraud. Effective supervision of the company can reduce or even make it difficult for agents or managers to commit financial statement fraud (Ijudien, 2018). According to the theory of agents who associate industry conditions with financial statement fraud, if the company's industrial conditions are ideal, management (as an agent) will not commit financial statement fraud. Companies with ideal conditions show the company's ability to manage receivables and increase company cash (Riskiani & Yanto, 2020). These findings are in line with research by Riskiani & Yanto (2020) which states that industry conditions have a significant negative effect on financial statement fraud, so that the more ideal the company's industrial conditions, the less likely it is to commit financial statement fraud.

This discovery is also in line with research conducted by Nuha et al. (2021), which found that factors such as financial targets, inancial stability, monitoring effectiveness, the nature of the industry, auditor turnover, and changes in the managerial framework also had a significant impact on the occurrence of financial statement fraud. This shows that there are factors that consistently influence the occurrence of financial statement fraud, and need to be considered in efforts to prevent and detect such fraud.

The regression analysis reveals a coefficient of -7.144451 for financial statement fraud and its correlation with the company's value. This negative coefficient indicates that a decrease of 1 in the company's value corresponds to a decrease of -7.144451. The significance value obtained is 0.4738, which is below the predefined threshold of 0.05. This suggests that financial statement fraud does not have a significant impact on the company's value.

The negative effect on firm value of financial statement fraud results from reduced investor confidence and lower share prices, in accordance with signaling theory. In this context, financial statement fraud provides a negative signal to the market and stakeholders that the company is not transparent or reliable. This causes investors to be reluctant to invest, which in turn has a negative impact on firm value.

Previous research has also shown a link between financial statement fraud and a decline in firm value. Albrecht et al. (2008) explains that financial fraud can attract negative attention that affects company performance. In addition, research by Suryani & Herianti (2015) asserts that companies involved in fraud show less than optimal performance after the event, thus affecting investor confidence and firm value.

CONCLUSION

This study concluded that financial statement reporting manipulation is significantly influenced by external pressures and industry characteristics, which have the potential to encourage fraudulent practices. Although rationalization and ability did not show a significant effect on financial statement manipulation, this study found that manipulative actions did not have a significant impact on firm value. These findings support the Diamond Fraud theory, which emphasizes the importance of external pressures and industry characteristics in driving financial statement fraud. This study provides recommendations for management to improve

financial statement transparency and supervision to minimize the risk of fraud.

Overall, the results of this regression analysis consistently support the concepts proposed by Diamond Fraud Theory, by showing that external pressures, industry nature, and rationalization play an important role in influencing the occurrence of financial statement fraud. Although the capability variable did not show a significant influence in this analysis, it may be due to contextual factors not covered in the regression model or may need to be explored further in further research.

This research makes a theoretical contribution by examines the influence of financial stability, external pressures, and ineffective supervision on financial statement fraud, as well as enhancing understanding of the factors that influence fraud in the context of corporate finance. This study links the Fraud Diamond theory with fraud detection in manufacturing and food and beverage companies listed on the Indonesia Stock Exchange, providing insight into the industry-specific application of the theory. In addition, this study emphasizes the relationship between external pressure, financial targets, and adversity with fraudulent behavior, which helps in understanding the external factors that influence fraud in corporate finance.

From a managerial perspective, this study suggests several implications. First, management needs to increase transparency in financial reporting to reflect the true value of the company, so as to increase investor confidence and reduce the risk of fraud. Secondly, management must be able to manage external pressures that influence company decisions. A deep understanding of the industry in which the company operates is also essential to identify fraud risks and take appropriate preventive measures, such as early detection systems like the F-Score model. Finally, increased oversight of financial activities, especially in relation to receivables and inventories, can help reduce the risk of financial statement fraud and improve the reliability of the financial information presented. By paying attention to these managerial implications, it is expected that companies can improve financial performance, minimize the risk of fraud, and increase the overall value of the company.

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