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The Role of Pressure and Industry Nature in Financial Statement Fraud Occurrence in Indonesia

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ABSTRACT

This study examines the influence of fraud triangle elements, pressure and opportunity on the occurrence of financial fraud in Indonesia. The rising number of fraud cases involving major Indonesian companies highlights the urgency of this research. The study aims to identify key factors that drive fraud to support fraud prevention efforts and strengthen risk management practices. Data were collected from 236 accounting and finance professionals working in public and private companies across 36 organisations in Indonesia through a secure online survey. The data were analysed using multiple linear regression, with validity and reliability testing conducted to ensure robust results. The findings indicate that fraud is driven not only by financial pressures, such as debt obligations, but also by non-financial motivations, including greed. Furthermore, the risk of fraud is lower in organisations that implement clear task segregation and maintain adequate documentation systems. A key limitation of this study is the exclusion of the rationalisation element of the fraud triangle, as it is cognitive and perception-based and therefore more suitable for examination among individuals who have committed fraud. Overall, this study offers practical insights for organisations, professionals, and institutions in detecting, preventing, and mitigating fraud, while emphasising the importance of organisational conditions and non-financial motivations in reducing the risk of financial statement fraud.

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1. INTRODUCTION

Fraud is a persistent global issue that causes significant financial losses across various sectors. Numerous empirical surveys conducted by leading organisations, including the Association of Certified Fraud Examiners (ACFE) and the Big Four accounting firms, indicate that fraud cases are widespread and recurring, with substantial economic impacts. Several major international scandals—such as Computer Associates, American International Group (AIG), Enron, WorldCom, and Microsoft—illustrate how financial statement manipulation can inflict systemic damage on companies and their stakeholders (Schilit, 2010). Recent global studies estimate that losses from fraud amount to trillions of dollars annually, and organisational surveys indicate an upward trend in economic crime incidents over time (Kalovya, 2023; PwC, 2022). According to ACFE (2022), fraud is classified into three primary categories—corruption, asset misappropriation, and financial statement fraud—and financial statement fraud, although representing only 9% of reported cases, results in the highest average losses, amounting to USD 593,000 per incident.

This phenomenon is also evident in the Indonesian context. Several financial statement fraud cases uncovered in recent years demonstrate that fraud risk remains a serious concern for domestic companies. In 2019, a state-owned airline was found to have manipulated revenue recognition, resulting in an increase of USD 809,000 in reported net income. An investigation into a state-owned insurance company further revealed that its 2006 financial statements had been manipulated in response to prolonged liquidity pressures. Earnings manipulation was also identified in a technology firm that had been listed on the Indonesian Stock Exchange for only two years. In 2018, a private bank made substantial revisions to its 2016 financial statements due to errors in the recognition of credit card revenue. Collectively, these cases indicate that companies in Indonesia continue to face significant vulnerabilities to financial statement manipulation.

The rising incidence of financial statement fraud, both globally and in Indonesia, has motivated a growing body of research examining the factors that drive fraud occurrence. Scholars emphasise the importance of understanding the determinants of fraud to develop more effective prevention strategies (Homer, 2020; Sánchez-Aguayo et al., 2021). However, fraud literature in Indonesia remains dominated by studies relying on firm-level secondary data—such as financial ratios or governance indicators—thereby limiting exploration of internal factors based on the perceptions of individuals involved in financial reporting processes. Furthermore, research on fraud in developing countries remains relatively scarce, even though institutional settings, business practices, and regulatory structures differ significantly from those in developed economies, thereby underscoring the need for more contextual empirical evidence (Omukaga, 2020; Owusu et al., 2022).

Fraud Triangle

The Fraud Triangle Theory (Cressey, 1950) is one of the most influential models for explaining why individuals commit fraud, positing that fraud occurs when pressure, opportunity, and rationalisation arise simultaneously. Pressure refers to conditions that drive individuals to engage in fraudulent behaviour, such as financial strain, performance target

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demands, market expectations, or pressure from management and shareholders. Prior studies indicate that such pressures may be intensified by factors such as greed, a consumptive lifestyle, or deteriorating economic conditions (Albrecht, 2012; Dellaportas, 2013; Ramamoorti et al., 2009).

Opportunity refers to conditions that enable fraud to occur, typically arising from weaknesses in internal controls, high flexibility in accounting estimates, poor segregation of duties, or operational processes that are difficult to monitor. SAS No. 99 (AICPA, 2002) includes industry conditions—or the nature of the industry—as part of the opportunity element because certain operational characteristics can widen the scope for judgment and make transactions more difficult to verify. Prior research shows that firms with complex operational processes, high levels of accounting subjectivity, inadequate documentation, and activities that are challenging to oversee are more vulnerable to financial statement fraud (Krambia-Kapardis, 2002; Idolor, 2010; Dellaportas, 2013). In response to criticisms of the ambiguity of the industry concept, this study clarifies that the construct does not refer to macro-level industry characteristics but rather to firm-specific operational attributes that inherently increase the likelihood of fraud. Accordingly, the nature of the industry is operationalised as an indicator of internal control weaknesses, reflected in transaction complexity, estimation subjectivity, incomplete documentation, and processes that are difficult to supervise; higher scores therefore indicate greater fraud opportunity.

Meanwhile, rationalisation refers to the cognitive process by which perpetrators justify their fraudulent actions. However, due to its internal and subjective nature, this element is difficult to measure empirically (Cohen et al., 2010; Skousen et al., 2011). Given that this study does not use fraud perpetrators as the unit of analysis, rationalisation is excluded from the research model. Nonetheless, the Fraud Triangle as a whole emphasises that pressure and opportunity often interact to increase fraud risk; pressure to meet performance targets or maintain reputation may encourage individuals to exploit operational weaknesses, enabling manipulative acts that are not easily detected. Thus, pressure and the nature of the industry constitute relevant determinants of financial statement fraud in the Indonesian context.

This study contributes to the fraud literature by addressing this gap through a multi-level approach that integrates primary data based on individual perceptions with secondary firm-level data. Respondents' perceptions of pressure and the nature of the industry are combined with a measure of fraudulent financial reporting using the F-Score. With 236 respondents from 36 companies, the study provides richer, more contextual empirical evidence on how psychological factors and operational characteristics influence the likelihood of fraud. Based on the Fraud Triangle Theory, the study develops two main hypotheses:

(H1) Pressure has a positive effect on fraudulent financial reporting, and

(H2) The nature of the industry has a positive effect on fraudulent financial reporting.

A deeper understanding of these determinants is expected to assist companies and regulators in designing more effective fraud-prevention strategies and in strengthening the integrity of financial reporting.

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2. METHODS

The study involved 236 respondents working in the accounting and finance divisions of 36 companies in Indonesia. Data were collected through a secure online survey, with the individual respondent serving as the unit of analysis. The independent variables—Pressure and Nature of the Industry—were measured using primary data based on individual perceptions, while the dependent variable, Fraudulent Financial Reporting (F-score), was obtained from secondary company-level data. The F-score for each company was assigned to all respondents employed by that company, yielding 236 individual-level observations. Accordingly, all statistical analyses were conducted at the individual level.

Pressure

The pressure variable was measured using a questionnaire adapted from Kalovya (2023). The construct comprises six factors operationalised into 19 items, each rated on a 5-point Likert scale. Table 1 presents these six factors along with the 18 indicators from which the 19 questionnaire items were derived

Table 1. Operationalisation of the Pressure Variable

Factor	Indicator	Research Question
Financial pressure arising from business activities	Intense market competition and high expectations from analysts and external parties	The company has a responsibility to consistently meet the expectations of analysts and external parties
		The company is required to consistently perform better than competing firms
	Efforts to conceal the deteriorating financial condition of the company	The company is required to consistently provide information reflecting a sound financial condition
	The need to increase the stock price in order to enhance management compensation based on financial performance	The company has a target to increase the stock price in order to enhance management compensation
	Need to meet internal earnings expectations	The company must deliver strong performance to meet internal earnings expectations
Motivation to please others or to appear respected	The suspect was instructed by a superior to carry out their actions	At your company, you have the authority to alter transaction values. One day, your superior instructs you to change the invoice amount to gain a financial benefit. What percentage of the profit might you take?
	The suspect risks losing their reputation by NOT carrying out their actions	At your current workplace, you are known as a good individual with satisfactory performance. One day, your superior instructs you to alter the invoice amount and threatens to impose sanctions, including transfer or

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		termination, if you do not comply. How would you respond?
	The suspect stands to gain a reputation by carrying out their actions	At your current workplace, you are known as an employee with mediocre performance. One day, your superior promises a promotion if you are willing to follow their instructions to alter the invoice amount. How would you respond?
Greed	The suspect needs money	You are the eldest child and the main breadwinner of your family. Your income is used to fund the education of your four younger siblings and care for your ailing parents. One day, you need additional money for your parents' medical expenses and debt repayment. Given your current situation, you have the opportunity to alter the invoice amount for financial gain. What percentage of the profit might you take?
	The suspect is greedy	Your current income sufficiently meets your needs, yet you still desire a higher income
Operational issues	Decline in customer demand	By what percentage has the company experienced a decline in customer demand?
	High organisational vulnerability to rapid changes (e.g., technology, obsolescence, or interest rates)	In your opinion, how vulnerable is the company you work for to rapid changes? For example: technology.
	Operating loss	By what percentage has the company experienced an operating loss?
	Recurring negative cash flows from organisational operations	By what percentage has the company experienced negative cash flows from operations?
Personal pressure or pressure arising from work situations	The suspect stands to gain financial benefits by carrying out their actions	You are in a position with the authority to alter the company's financial records. Weak internal controls and a lack of supervision within the organisation allow you to potentially misuse this authority. Is it possible that you would use your authority to gain financial benefits?
	The suspect feels significant pressure to carry out their actions	Given your current position, you have the opportunity to alter invoice amounts and obtain financial benefits. Weak internal controls within the organisation and a lack of oversight

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		make it possible for you to avoid detection. Is it possible that you would take advantage of your authority because you believe you will not be caught?
Toxic work environment	The suspect seeks revenge	I have often/previously thought about taking revenge on the company because I was treated unfairly
	The suspect is angry at their superior or the organization	I have often/previously felt anger toward my superior or the company I work for.
	The suspect is treated or perceived as being treated unfairly within the organization	I am treated unfairly by the company

A reliability analysis was conducted to assess the internal consistency of the instrument. The results show that the Pressure variable achieved a Cronbach's alpha of α = 0.8154, indicating high internal reliability.

Nature of Industry

The second independent variable, Nature of the Industry (NoI), was measured using a questionnaire adapted from Kalovya (2023). This construct comprises two factors and five indicators, which were further developed into five research items, all measured on a 5-point Likert scale. Table 2 presents the factors, indicators, and items used to operationalise the NoI variable.

Table 2. Operationalisation of the Nature of Industry Variable

Factor	Indicator	Research Question
Transactions and activities are carried out according to management's directives	Inadequate documents and records	How often do you feel that the documents used in your company do not have adequate documentation or recordkeeping?
	Lack of proper authorisation and approval for transactions and activities	The company ensures that all transactions and activities are known to and approved by supervisors or management.
	Inadequate segregation of duties	The presence of a clear separation of duties in the company where you work
Collusion	Your supervisor asks you to make a large purchase of office supplies. At that moment, you recall that one of the office supply vendors is owned by a personal acquaintance. You then contact this acquaintance for the procurement. As a gesture of goodwill, your acquaintance offers you 30% of the revenue he receives, but asks you to inflate the purchase price above its actual value and to always make future purchases through him.	
	Collusion	Would you accept this offer?

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	Significant, unusual, or highly complex transactions	Would you be willing to inflate the prices of the supplies you purchased for your personal gain?

A reliability analysis was conducted to assess the internal consistency of the instrument. The results showed that the Nature of the Industry variable had a Cronbach's Alpha of α = 0.7529, indicating satisfactory reliability.

Financial Statement Fraud

The dependent variable, Fraudulent Financial Reporting, was measured using the company-level F-Score. The F-score for each of the 36 companies was assigned to all respondents employed by that company. The F-Score model is a fraud detection tool that applies scaled logistic regression techniques and comprises two primary components: accrual quality and financial performance. Prior studies indicate that the F-score achieves approximately 68–70% accuracy, although performance may vary with the characteristics of the fraud cases under examination.

$$\mathrm{F-Score} = \mathrm{Accrual\ Quality\ (AQ)} + \mathrm{Financial\ Performance\ (FR)}$$

$$\mathrm{AQ} = \frac{\Delta WC + \Delta NCO + \Delta FIN}{Average\ Total\ Asset}$$

$$\mathrm{FR} = \mathrm{Change\ in\ Receivable} + \mathrm{Change\ in\ Inventory} + \mathrm{Change\ in\ Cash\ Sales} \\ + \mathrm{Change\ in\ Earnings}$$

Description:

$$\Delta WC = Current\ assets - Current\ liability$$

$$\Delta NCO = Total\ assets - Current\ Assets - Investment - Total\ liabilities \\ - Current\ liabilities - Long\ term\ debt$$

$$\Delta FIN = Total\ investment - Total\ liabilities$$

$$\mathrm{ATS} = (\mathrm{Beginning\ total\ assets} + \mathrm{End\ total\ assets})/2$$

In this study, there were guidelines used to assess the F-score in measuring the risk of material misstatement in the financial statements, namely:

- F-Score > 2,24 = High risk
- F-Score > 1,85 = Substantial risk
- F-Score > 1 = Above normal risk
- F-Score < 1 = Low/normal risk

Data Analysis

This study employed multiple linear regression to examine the influence of independent variables on the dependent variable, Fraudulent Financial Reporting, measured by the continuous F-Score. This method is appropriate because the dependent variable satisfies the assumptions required for linear modelling. The regression model estimated in this study is as follows:

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$$\mathrm{fscore} = \alpha + \beta_1 \mathrm{pressure} + \beta_2 \mathrm{NoI} + \mathrm{u}$$

Description:

fscore = Fraudulent Financial Reporting

pressure = Pressure

NoI = Nature of Industry

3. RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive analysis is used to provide an overview of the respondents' characteristics and the variables employed in this study. The following section presents a descriptive analysis of respondent characteristics by length of work experience.

Table 3. Respondent Characteristic Based on Work Experience

Work Experience	Total	Percentage
1-5 Years	26	11,11%
5-10 Years	20	8,33%
10-15 Years	72	30,56%
>15 Years	118	50%
Total	236	100%

Source: Result of data processing, 2023

Based on Table 3, respondents are classified by work experience into four categories: 1–5 years, 5–10 years, 10–15 years, and more than 15 years. The descriptive analysis indicates that the majority of respondents have more than 15 years of work experience, totalling 118 individuals (50 per cent of the sample), followed by 72 respondents (30.56 per cent) with 10–15 years of experience. Additionally, 26 respondents (11.11 per cent) have 1–5 years of experience, and 20 respondents (8.33 per cent) have 5–10 years of experience. The descriptive statistics for the variables used in this study are presented in Table 4.

Table 4. Descriptive Analysis of Variables in the Model

Variable	Obs	Mean	Std. Dev.	Min	Max
Fscore	236	-1.105	1.227	-3.147	1.032
Pressure	236	66.472	7.249	40	77
NoI	236	22.417	2.26	18	25

Source: Result of data processing, 2023

Based on Table 4, the total number of respondents in this study is 236 individuals employed across 36 companies in Indonesia. The fscore variable has a minimum value of 3.147, with an average of 1.105 and a standard deviation of 1.227. According to the F-Score classification, these values indicate that, overall, the companies in which the respondents work fall into the low/normal risk category, suggesting a relatively low likelihood of material misstatement in their financial statements.

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The pressure variable ranges from 40 to 77, with a mean of 66.472 and a standard deviation of 7.249. On this scale, a higher-pressure score indicates a lower level of perceived pressure, whereas a lower score indicates greater perceived pressure. Thus, the relatively high average score suggests that respondents generally perceive low pressure.

The NoI variable ranges from 18 to 25, with a mean of 22.417 and a standard deviation of 2.26. A higher NoI score indicates a more favourable industry environment for the company, whereas a lower score indicates a less favourable environment. The average NoI value suggests that the majority of companies in which the respondents work operate within industries characterised by relatively ideal operational conditions.

Multiple Linear Regression Analysis

The results of the multiple linear regression presented in Table 5 indicate that the Pressure variable has a positive regression coefficient of 0.099, which is statistically significant at the 1% level ($p = 0.001$). This indicates that higher pressure levels are associated with higher values of the dependent variable. Meanwhile, the Nature of Industry variable displays a negative coefficient (–0.232) and is significant at the 5% level ($p = 0.032$), suggesting that characteristics captured by this construct are associated with a decrease in the dependent variable.

The model's R-squared value of 0.1931 implies that approximately 19.31% of the variation in the dependent variable is explained by Pressure and Nature of Industry. Overall, both variables demonstrate statistically significant effects on the dependent variable.

Table 5 (Multiple Linear Regression Analysis Results)

Table 5. Multiple Linear Regression Analysis Results

Variables	Coeficient	Std. Error	t-value	p-value	Sig
Constant	-2.484	1.943	-1.280	0.201	
Pressure	0.099	0.030	3.250	0.001	***
Nature Of Industry	-0.232	0.108	-2.140	0.032	**
R-squared	= 0.1931				
Adjusted R-squared	= 0.1442				
F-statistic	= 10.56				
Prob > F	= 0.0051				
Root MSE	= 1.1351				

Standard errors in parentheses

***p < 0.01; **p < 0.05; p < 0.1

Source: Results of data processing, 2023

Based on the test results, the multiple linear regression analysis showed that 19.31% of the variation in Fraudulent Financial Reporting was explained by Pressure and the Nature of Industry. Meanwhile, the remaining 80.69% was attributable to variables outside the model. The F-statistic reported in Table 5 was 10.56, with a significance probability of 0.0051 (< 0.05). This indicates that the regression model is fit and that the independent variables jointly have a significant effect on the dependent variable.

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The Effect of Pressure on Fraudulent Financial Reporting

The regression results show that the coefficient for the pressure variable (X1) is 0.099 ($p < 0.001$), indicating a significant positive effect on the F-score. This means that a one-unit increase in the pressure score is associated with a 0.099 increase in the risk of fraudulent financial reporting. This finding supports the hypothesis that motivational pressure is a driving factor in fraud, consistent with the Fraud Triangle Theory (Cressey, 1950), which identifies pressure as one of the primary elements that trigger fraudulent behaviour. Theoretically, pressure may arise from the need to meet performance targets, fear of losing one's position or reputation, or the urge to satisfy superiors' expectations. Kalovya (2023) identifies six types of pressure that may motivate individuals to commit fraud, including financial pressure, internal competition, and social pressure. The significant regression findings indicate that such pressures are indeed present in corporate practices in Indonesia.

In addition to motivational factors, employees may be driven to commit fraud due to direct instructions from supervisors or top management, while fear of losing reputation, status, or position further intensifies this pressure—particularly when individuals perceive their self-worth as tied to complying with such instructions (Murphy et al., 2012). Supervisors hold positions of authority, with access to resources and the ability to influence subordinates, enabling them to facilitate or initiate fraudulent actions, whereas weak oversight provides opportunities for individuals to act without fear of sanctions (Efendi et al., 2024). An unhealthy or toxic work environment also amplifies pressure; experiences of marginalisation, lack of appreciation, or unfair treatment may generate frustration that, in turn, triggers unethical decision-making, including the manipulation of financial statements (Murphy et al., 2012; Astuti & Sarwono, 2023).

Pressure may also arise from greed or the pursuit of personal gain, in which financial statement manipulation is undertaken to obtain bonuses, stock-based compensation, or performance-related prestige, particularly when internal controls are weak (Ramamoorti et al., 2009; Astuti & Sarwono, 2023). External factors, such as market pressure and economic uncertainty, likewise push companies to "appear favourable," prompting earnings manipulation to maintain their reputation or market confidence (Muhyi & Suratno, 2021). Conversely, organisational ethics serve as a key determinant in mitigating pressure, as a strong ethical foundation reinforces a culture of integrity, honesty, and accountability, enabling employees to identify conflicts of interest and reject incentives that encourage unethical behaviour.

Overall, pressure has been shown to be a significant factor in the occurrence of fraudulent financial reporting. This finding reinforces the relevance of the Fraud Triangle Theory (Cressey, 1950) and is supported by various contemporary studies (Desai, 2020; Avortri & Agbanyo, 2021; Baridwan & Subroto, 2024; Chalissa & Suryani, 2024; Kurniawati & Sarwono, 2024; Susyanti & Sopian, 2025; Yulianti & Wulandari, 2023). Furthermore, strengthening internal control has been shown to be an important moderating mechanism in reducing fraud risk (Dewi & Suardana, 2022), underscoring that individual-level pressures must be managed in tandem with sound internal control practices.

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The Effect of the Nature of Industry on Fraudulent Financial Reporting

The nature of the industry (X2) variable in this study measures the extent of internal control weakness in a company, with higher scores indicating a more ideal organisational condition—characterised by clear segregation of duties, adequate documentation, and strong internal controls—while lower scores reflect weaker internal controls. The regression results show a coefficient of –0.232, indicating an inverse relationship: each one-unit increase in X2 reduces the F-Score by 0.232, meaning that the better a company's internal conditions, the lower the risk of fraudulent financial reporting. Thus, the negative coefficient is consistent with the direction of the variable's measurement.

Theoretically, ideal industry characteristics can reduce the risk of material misstatements and fraud through proper segregation of duties, adequate documentation, and appropriate assignment of responsibilities. Segregation of duties enables the internal control system to function effectively by distributing financial responsibilities across different functions—such as cash management, transaction recording, and financial reporting—thereby preventing any single individual from controlling the entire process, facilitating the detection of errors or fraud, and enhancing accountability and transparency (Eugster et al., 2024; Abed, 2022; Muslim, 2025). Adequate documentation and recordkeeping help maintain the accuracy of financial statements and support both internal and external audit processes, enabling the detection of potential fraud before it escalates (Muceku, 2020; Bulău, 2021; Surtikanti, 2021).

Independent oversight of the financial reporting process reduces the risk of collusion, namely, covert agreements undertaken for fraudulent purposes (Eugster et al., 2024). Indiraswari et al. (2025) show that the effectiveness of corporate governance in mitigating fraud increases when firms face financial pressure, while Trisanti (2023) emphasises that audit committee characteristics—particularly independence and tenure—play a significant role in preventing fraudulent financial reporting.

Overall, the regression results and literature evidence indicate that the nature of the industry plays a significant role in reducing fraud risk. Companies that establish a work environment with strong internal controls, adequate documentation, and proper segregation of responsibilities not only enhance the reliability of financial reporting but also strengthen the trust of investors, creditors, and other stakeholders. These findings are supported by prior studies, including Kalovya (2023), Khamainy et al. (2021), Tarjo et al. (2021), Carla et al. (2021), Sihombing et al. (2021), Eugster et al. (2024), Indiraswari et al. (2025), and Trisanti (2023), further affirming that internal organisational characteristics can be a determining factor in the occurrence of fraudulent financial reporting.

4. CONCLUSION

This study demonstrates that pressure (X1) and industry type (X2) significantly influence the incidence of fraudulent financial reporting in Indonesian companies. Empirically, motivational pressures—both financial and non-financial, including debt obligations, the drive to meet performance targets, fear of losing reputation, and toxic work environments—increase the risk of fraud, whereas ideal organisational conditions

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characterised by clear segregation of duties, adequate documentation, and effective supervision reduce such risks. These findings reaffirm the relevance of the Fraud Triangle Theory (Cressey, 1950), with pressure serving as a driving factor and opportunity—captured through the nature of industry—functioning as an inhibiting factor in the occurrence of fraud.

From a theoretical perspective, this study strengthens empirical evidence that the combination of individual pressures and internal organisational characteristics plays a crucial role in fraudulent financial reporting, while also emphasising the need to integrate motivational and structural factors within modern fraud models. In terms of practical implications, the findings highlight the importance of reinforcing ethical culture, ensuring adequate internal controls, establishing clear segregation of duties, maintaining comprehensive documentation, and implementing independent oversight to minimise the risk of fraud. Companies, professionals, and regulatory bodies can utilise these insights to design more effective, evidence-based fraud-prevention mechanisms.

This study also has several limitations. The rationalisation element was not examined because it is difficult to measure within the chosen unit of analysis; it is assumed to be cognitive in nature and tied to individual perceptions. For future research, it is recommended that actual fraud perpetrators or companies proven to have engaged in fraudulent activities be analysed to obtain a more accurate understanding of the context, the parties involved, and the losses incurred.

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