

FINANCIAL TARGETS AND EXTERNAL PRESSURE ON FINANCIAL STATEMENT FRAUD: FEMALE FINANCIAL EXPERTISE AS THE MODERATING VARIABLE

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ABSTRACT

This research aims to analyze the influence of financial targets and external pressure on financial statement fraud and the effect of female financial expertise as a moderating variable. The object of this research is banking companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2022 period. Based on purposive sampling, 99 observations were obtained that met the criteria. The analysis technique used was PLS-SEM Warp PLS 8.0. This research shows that financial targets and external pressure positively and significantly affect financial statement fraud. The moderating effect of female financial expertise strengthens the influence of financial targets on financial statement fraud. The moderating effect of female financial expertise weakens the influence of external pressure on financial statement fraud. Theoretically, this research contributes to the study of agency theory. Practically, this research is useful for companies to monitor the financial skills of female directors of companies whose expertise includes a CPA or MBA degree, which can reduce the probability of financial statement fraud.

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1. Introduction

Fraud can be defined as deliberately committing a crime against the victim and accepting the risk to provide a profit for the perpetrator (Kassem 2024). In this context, fraud refers to financial statement fraud, which is failure to disclose material information, embezzlement, manipulation of income, the admission of fictitious transactions, and misuse of assets (Yami and Hughes 2022). According to Nasir, Ali, and Ahmed (2019), financial statement fraud is defined as late disclosure of information, failure to disclose information, and falsification of accounting details. Financial statement fraud is carried out by deliberately manipulating and omitting important information relating to accounting policy principles (Sintabela and Badjuri 2023). Financial assets provide an excellent opportunity for companies to commit fraud due to the subjective nature of their measurement and the complexity of audits (Tian and Sun 2023). The impact of fraud on an organization can cause losses that can weaken organizational productivity, damage employee morality, and cause a loss of public trust, resulting in a shift in collaboration with other organizations or companies (Shonhadji 2021).

Financial reporting fraud can harm investors' interests, damage the allocation of capital market resources, and hinder the healthy development of capital markets (Wu et al. 2021). The large impact of fraud causes companies to face large losses for investors, creditors, and employees (Craja et al. 2020).

The international issue regarding financial statement fraud occurs in China. The China Securities Regulatory Commission (CSRC) revealed that about 60% of financial reporting fraud incidents involve capital circulation fraud and fictitious businesses (Li et al. 2023). This makes fraudulent companies update fraudulent schemes to cover up financial reports secretly, making it increasingly difficult for perpetrators to detect them. In recent decades, it was reported that losses due to financial statement fraud reached \$572 billion per year in the US market and caused huge losses to investor confidence and the overall economy (Shen et al. 2021). A recent global fraud study conducted by the ACFE in 2018 showed that the fraud originated in countries in the Middle East, North Africa, and Egypt. In Middle Eastern and North African companies, it is easier to detect through information than external audits (Kassem 2019). In Indonesia, cases of financial statement fraud are difficult to reveal, especially in the financial and banking sectors. Data from the Association of Certified Fraud Examiners (2022) shows that the banking and financial services industry has 351 cases with a presentation of 22.30%. Fraud cases in Indonesia rank at the top in the Asia Pacific region, with corruption fraud cases being the highest, followed by asset misuse and financial statement fraud. Total losses from corruption cases reached IDR 373.65 trillion. Abuse of assets experienced a total loss of IDR 257.52 trillion, and financial statement fraud experienced a loss of IDR 242.26 trillion (Achmad et al. 2023). Several fraud cases in Indonesia include data manipulation, to be precise, in 2018 at Bank BJB Syariah, theft of customer deposits at BNI, and loss of customer funds at May Bank. Fraud cases in the banking sector in 2020 involved customers or people in the bank for personal needs (Achmad et al. 2023). Meanwhile, financial statement fraud is a serious problem for investors, audit companies, and state regulators (Craja, Kim, and Lessmann 2020). Financial statement fraud attracts attention from various parties, including the business community, the accounting profession, academics, and regulators (Rezaee 2005).

The factors that have been studied can be classified into internal and external factors. The factors towards financial statement fraud that have been studied, namely arrogance influencing fraud (Lastanti, Murwaningsari, and Umar 2022; Nugroho and Diyanty 2022; Achmad et al. 2023), financial stability influencing (Setiawati and Baningrum 2018; Aulia Haqq and Budiwitjaksono 2020; Achmad et al. 2023), ineffective monitoring (Setiawati et al. 2018) (Setiawati and Baningrum 2018; Aulia Haqq and Budiwitjaksono 2020; Achmad et al. 2023), rationalization (Lastanti, Murwaningsari, and Umar 2022; Nugroho and Diyanty 2022), arrogance (Nugroho and Diyanty 2022; Lastanti, Murwaningsari, and Umar 2022; Achmad et al. 2023), change of director (Aulia Haqq and Budiwitjaksono 2020; Achmad et al. 2023), *independent female directors* (Yami and Hughes 2022; Wang, Yu, and Gao 2022), *financialization* (FIN) (Tian and Sun 2023), CEO nationality (Masruroh and Carolina 2022), competence (Mediawati and Fadhila 2021), religiosity (Fathi et al. 2017; Mediawati and Fadhila 2021; Shonhadji 2021), professional commitment (Shonhadji 2021), moral courage (Shonhadji 2021), idealism (Shonhadji 2021), nature of the industry (Aulia Haqq and Budiwitjaksono 2020), frequency of CEO photos (Setiawati et al. 2018; Aulia Haqq and Budiwitjaksono 2020), ego (Nugroho and Diyanty 2022), gender CEO (Gender) (Fathi et al. 2017; Nirmala et al. 2021; Probahudono et al. 2022; Masruroh and Carolina 2022), governance and culture (Lastanti, Murwaningsari, and Umar 2022), motivation (Handajani, Muhsyaf, and Sokarina 2023), decision support (Craja, Kim, and Lessmann 2020), capability /*capabilities* (Nugroho and Diyanty 2022).

External factors against financial *statement fraud* that have been studied are external pressure (Setiawati and Baningrum 2018; Aulia Haqq and Budiwitjaksono 2020; Nugroho and Diyanty 2022; Achmad et al. 2023), collusion (Nugroho and Diyanty 2022; Lastanti, Murwaningsari, and Umar 2022; Achmad et al. 2023), Vested Delta coefficient (Chen, Wang, and Xing 2021), free money (Free Cash) (Chen, Wang, and Xing 2021), altruistic value (Shonhadji 2021), political *connection* /political relations (Aulia Haqq and Budiwitjaksono 2020), *company existence* /company existence (Aulia Haqq and

Budiwitjaksono 2020), opportunity /opportunity (Lastanti, Murwaningsari, and Umar 2022; Nugroho and Diyanty 2022), *quality of external auditor* (Setiawati and Baningrum 2018), change of auditor (Setiawati et al. 2018; Aulia Haqq and Budiwitjaksono 2020), stimulus (STI) (Nugroho and Diyanty 2022), audit quality (Handajani, Muhsyaf, and Sokarina 2023).

According to Baron and Kenny (2018), variables that show different results are thought to moderate (strengthen or weaken) the independent variable on the dependent variable. Moderating variables are used to measure the strength of the relationship. Therefore, it becomes interesting to research financial targets and external pressures related to financial statement fraud and relate them to moderating variables. The moderating variable used in this research is female financial expertise. A study by Ozcelik (2020) states that the higher the ROA, the greater the tendency to commit financial statement fraud. According to a study by Aulia Haqq and Budiwitjaksono (2020), external pressure can trigger financial statement fraud because they have to repay the debt so as not to suffer losses. Studies by (Yami and Poletti-Hughes 2022), (Maula and Rakhman 2018) state that female directors who have accounting skills, have high ethics, and comply with financial reporting rules can reduce financial statement fraud.

2. Literature Review

2.1. The Effect of Financial Targets on Financial Statement Fraud

The principal-agent theory states that inconsistent interest goals cause agency problems between shareholders and managers (Tian and Sun 2023). Through the principal-agent theory, financial statement fraud occurs due to certain loopholes that are deliberately made by agents (company managers) to commit fraud. Financial targets are one component that puts strong pressure on management to achieve financial and profit targets based on management regulations (Setiawati and Baningrum 2018). Unrealistic targets can make employees try to manipulate financial report results due to the influence of managers' high egos (Nugroho and Diyanty 2022). According to F.Bawekes, Simanjutak, and Daat (2018) and Kurnia and Anis (2017), it is proven that financial targets proxied by ROA (return on assets) can influence the occurrence of fraud in financial reports. Financial targets have a positive effect on fraudulent financial reports, so the higher the target finance, the higher the probability of financial statement fraud (Utami and Pusparini 2019a; Nanda, Zenita, and Salmiah 2019; Maylia Pranomo Sari et al. 2020). Based on the explanation above, the researcher proposed the following hypothesis:

H1: Financial target has a positive effect on financial report fraud.

2.2. The Effect of External Pressure on Financial Statement Fraud

Through fraud theory, the relationship between external pressure and the acquisition of additional funds from third parties comes into focus. This pressure encourages management to present strong financial reports to meet external party expectations. Agency theory is also related to external pressure, where agents try to provide good financial report information to increase bonuses from principals. External pressure comes from outside the company, such as support or rejection from society and the government through applicable regulations (Setyowati and Yaya 2017). Companies tend to use additional funds for investments related to operational activities (Manurung and Hardika 2019). External pressure arises when the business world has difficulty paying high-risk credit debts, triggering creditor concerns and the risk of financial statement fraud (Achmad et al. 2023).

External pressure is proxied by the leverage ratio, where the higher the leverage, the greater the company's debt and the risk of fraudulent financial statements. Fraud can be triggered by the need to return the capital earned. Research shows that the higher the external pressure, the greater the possibility of financial statement fraud (Aulia Haqq and Budiwitjaksono 2020). Research by (Pamungkas and Utomo 2018; Utami and Pusparini 2019a; Situngkir and Triyanto 2020; Achmad, Hapsari, and Pamungkas 2022) states that external pressure has a positive effect

on financial statement fraud. The higher the external pressure, the greater the possibility of financial statement fraud. Based on the explanation above, the researcher proposed the following hypothesis:

H2: External pressure has a positive effect on financial statement fraud

2.3. The Female Financial Expertise as Moderating Financial Targets on Financial Report Fraud

Based on agency theory, the board of directors is responsible for aligning the interests of agents and principals, with female directors able to carry out their duties better (Vizcaíno-gonz 2023). Female financial expertise is one component of gender diversity, where women have an increasingly important role in modern society, the labor market, and the economy (Adhikari, Agrawal, and Malm 2019). Female financial experts tend to be more ethical and sensitive to financial risks, which can improve the quality of financial reporting. According to (Lenard et al. 2017; Wahid and Sijamic 2019; Wang, Yu, and Gao 2022a) companies with female directors were found to improve the quality of corporate reporting and reduce the possibility of corporate fraud. According to (Yami and Hughes 2022) the negative influence of financial fraud can be reduced with greater experience and expertise. Female financial expertise can reduce financial statement fraud and financial risks. Based on the explanation above, the researcher proposed the following hypothesis:

H3: Female Financial Expertise weakens the influence of financial targets on financial statement fraud

2.4. The female financial expertise as a moderator of external pressure on financial statement fraud

According to agency theory, an agency relationship develops when the principal and agent enter into a contract that gives discretionary authority to the agent. The greater the company's profits, the higher the profits obtained by the agent, so that female financial expertise will detect fraud (Prasetiyo and Harto 2023). According to Wang et al. (2022) the emergence of several cases of fraud was caused by a lack of accuracy in making corrections to financial reports. Companies need gender diversity to best achieve company goals. Companies that have many women have good corporate performance and superior corporate governance. Fraud can be minimized through gender diversity, with the presence of female employees reducing the possibility of financial statement fraud (Wang et al.,2022). According to Bansal (2023), female financial expertise strengthens the relationship between credentials and earnings quality because women with accounting educational backgrounds are in a better position to review a company's financial reporting processes and thereby reduce fraud. According to (Barnett, Bass, and Brown 1994; Beu, Buckley, and G. 2003; BERNARDI and SR. 2010; Baldry 2011) women tend to be more trustworthy and more obedient to rules and regulations. According to (Ngo and Nguyen 2022) female financial expertise can help prevent financial statement fraud by determining company strategic choices according to their work experience and financial expertise.

The more skilled female directors, the lower the level of external pressure, thereby reducing the occurrence of fraudulent financial reports (Prasetiyo and Harto 2023). In particular, disclosure of forward-looking financial information may benefit companies, investors, and regulators (Bravo and Alcaide-ruiz 2019). The first hypothesis states that external pressure will increase financial statement fraud. Still, the role of female financial expertise does not rule out the possibility that this fraud can be reduced. Based on the explanation above, the researcher proposed the following hypothesis:

H4: Female Financial Expertise weakens the influence of external pressure on financial statement fraud.

3. Methods, Data, and Analysis

This research is correlational and aims to determine the relationship between the influence of one variable and another on financial targets and external pressure, with female financial expertise as a moderating variable. The object of this research is banking companies listed on the Indonesia Stock

Exchange (IDX) for the 2018–2022 period. The banking sector is a sector that collects funds from the public and supervises everything related to banks and institutions. The stages of data sample collection are explained as follows:

Variable Measurement and Technical Analysis

The variables in this study were measured as follows:

Table 1. Operational Definition of Variables

Variable	Measurement
Dependent	
<i>Financial Statement Fraud</i> (Dechow, P.M., Ge, W., Larson and & Sloan 2011)	When the F score value is greater than 1,00 the company happens fraud; 0 instead, through F-Score calculations
Independent	
<i>Financial Target</i> (Supri, Rura, and Pontoh 2018)	ROA = $\frac{\text{Net Profit}}{\text{Total Assets}}$
<i>External Pressure</i> (Maghfiroh, Ardiyani, and Syafnita 2015)	BUT = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$
Moderating	
<i>Female Financial Expertise</i> (Yami and Poletti-Hughes 2022)	FFE = Number of Female Directors with CPA or MBA degrees / Total Board of Directors X 100%

The total number of companies used as a sample is 22 with 5 years of observation, resulting in a total of 110 observations. During the research period, 11 observations were outliers, resulting in a total of 99 observation processes. This research uses the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique with Warp PLS 8.0 software as the technical analysis. In this research, the equation model is explained as follows:

Equation 1.

$$FSF = Ln = \left[\frac{p}{1-p} \right] = \alpha + \beta_1 FT + \beta_2 EP + \beta_3 FFE * FT + \beta_4 FFE * EP + i \quad (1)$$

Explanation:

a : Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$: Koefisien Regresi

FT: *Financial Target*

EP: *External Pressure*

FFE: *Female Financial Expertise*

4. Results and Discussion

4.1. Tables and Figures

Table 2. Model Fit

Criteria	Value	Sign.	Rule of Thumb	Notes
Average Path Coefficient	0.192	P= 0.003	P < 0.05	Satisfy
Average R-Square	0.235	P= 0.001	P < 0.05	Satisfy
Average Adjusted R-Squared	0.203	P= 0.001	P < 0.05	Satisfy
Average Variance Inflation Factor	2.120		≤5	Satisfy
Average Full Collinearity VIF	2.764		≤5	Satisfy
Tenenhaus GoF (GoF)	0.485		Small ≥ 0,1 Medium ≥ 0,25 Large ≥ 0,36	Large

Based on the model fit indicator output presented in Table 2, the six indicators used in this research model meet the criteria. The APC, ARS, and AARS indicators have a P value <0.05. The AVIF and AFVIF indicators have a value < 3.3. The GoF indicator has a value of 0.485, meaning it is included in the large model category because it is higher than 0.36.

Explanatory Power

Table 3. R-squared, Q-squared, and Effect Size

R-Squared = 0.235			
Q-Squared = 0.342			
Effect size			
Variable	Path Coefficients	Information	Rule of Thumb
FINTAR	0.110	Weak	> 0.02 weak
FFE*FINTAR	0.048	Weak	> 0.15 moderate
EXPRESS	0.016	Weak	> 0.02 weak
FFE*EXPRESS	0.093	Weak	> 0,02 weak

Based on Table 3, the explanatory model indicators in this study show an R-squared value of 0.235, indicating that 23.5% of the variation in endogenous variables or dependent financial statement fraud can be explained by exogenous or independent target financial variables (FINTAR); interaction variable female financial expertise and company complexity (FFE*FINTAR); and the remaining 97.65% is explained by other variables outside this research model. The Q-squared value of 0.342 means that this research model has predictive relevance because this value is higher than 0. The next explanation is the effect size indicator.

The results show that the influence of the financial target variable (FINTAR) is 0.110, or 11%, meaning that the contribution of individual company complexity variables to the R-squared value is categorized as weak from a practical point of view. The external pressure

variable (EXPRESS) has a value of 0.048, or 4.8%, meaning that the contribution of the individual company complexity variable to the R-squared value is categorized as weak from a practical point of view. The effect size value of FFE*FINTAR is 0.016, or 1.6%, and the effect size value of FFE*EXPRESS is 0.093, or 9.3%, meaning that the interaction between the individual contribution of the female financial expertise leader variable and company complexity on the R-squared value is categorized as weak from a practical point of view.

Path Coefficients and P-values

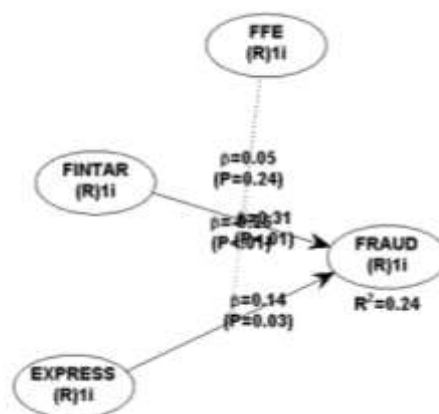
Table 4. Path Coefficients and P-values

Variable	Path Coefficients	P- value
FINTAR	0.311	<0.001
EXPRESS	0.143	0.032
FFE*FINTAR	0.055	0.239
FFE*EXPRESS	-0.258	0.001

According to Table 4, The path coefficient of the financial target (FINTAR) is 0.311 and significant with $P < 0.001$; the path coefficient of the external pressure (EXPRESS) is 0.143 and significant with $P = 0.032$; and the path coefficient of the moderating variable, which is the interaction of female financial expertise (FFE*FINTAR), is 0.055 and significant with $P = 0.023$. The interaction of female financial expertise (FFE*EXPRESS) is -0.258 and significant with $P = 0.001$.

Discussion

Figure 1. Path Diagram



Based on Figure 1, it shows that financial targets have a positive and significant effect on financial statement fraud. This can be seen from the company's operational complexity path coefficient of 0.311 with $P < 0.001$, meaning that hypothesis 1 (H1) is accepted. These results are in line with research conducted by, which shows that financial targets have a positive effect on financial statement fraud. Based on the perspective of agency theory, the number of subsidiaries shows that the company has higher financial target activity, which increases the increase in financial statement fraud. Based on fraud theory, (Cressey 1953) considers that the triangle fraud theory contains three factors that encourage humans to commit fraud, namely pressure, opportunity, and rationalization factors. When the director is under high pressure, he tends to fulfill his objectives by meeting targets that are

vulnerable to financial statement fraud. The next explanation, based on Figure 1, shows that external pressure has a positive effect on financial statement fraud. This is in line with (Utami and Pusparini 2019a; S. tri Nanda, Salmiah, and Mulyana 2019; Maylia Pranomo Sari et al. 2020; K and Ramantha 2020) which states that external pressure has a positive effect on financial statement fraud. The higher the external pressure, the greater the possibility of financial statement fraud. Then the moderating variable of female financial expertise in mitigating the influence of financial targets on financial statement fraud has a path coefficient value of 0.055 and P-values = 0.239, meaning that hypothesis 3 (H3) is rejected because the higher the financial target, the more likely financial statement fraud will occur due to accounting conservatism. If there is still a financial target, there will be a tendency for financial statement fraud to occur, whether the leading director is male or female. Then the next moderating variable is that female financial expertise mitigates the influence of external pressure on financial statement fraud, which has a path coefficient value of -0.258 and P-values < 0.001, meaning hypothesis 4 (H4) is accepted. Companies that have many female directors have good corporate performance and superior corporate governance. The greater the company's profits, the higher the benefits obtained by the agent, so that fraud will be detected by the female financial expert who controls it.

5. Conclusions and recommendations

Based on Warp PLS analysis, the following hypothesis results are obtained: Hypothesis 1 (H1) is accepted: financial targets have a positive and significant effect on financial statement fraud. Companies have unrealistic targets, which makes employees try to commit financial statement fraud. The higher the company's financial targets, the greater the increase in financial report fraud. Hypothesis 2 (H2): External pressure has a positive effect on financial statement fraud. Companies use additional investment funds to finance company operational activities. This occurs when a business incurs high-risk credit debt. The higher the external pressure, the greater the possibility of financial statement fraud. The results of testing Hypothesis 3 show that female financial expertise strengthens financial targets against financial statement fraud. The higher the financial target, the more likely financial statement fraud will occur. The role of female financial expertise will reduce financial statement fraud because of accounting conservatism, which means that financial targets will still tend to be financial statements, so hypothesis 3 (H3) is rejected. The results of testing Hypothesis 4 (H4) were accepted, indicating that external pressure weakens female financial expertise against financial statement fraud. The more female expertise, the lower the level of external pressure, thereby reducing the occurrence of financial statement fraud.

Theoretically, this research contributes to the study of agency theory and fraud theory. Practically, this research is useful for companies as input for management (agents) to improve performance within the company. Directors who have female financial expertise with the expertise of a CPA or MBA degree will increase their supervisory role and be able to reduce the occurrence of fraudulent financial reports more effectively. A board of directors that has female financial expertise with CPA or MBA degree expertise is needed in complex corporate situations. The limitation of this research is that the companies in it are also limited by the number of subsidiaries. Another limitation is that moderating variable data is rarely found in annual reports, the research year is only five years, and the research object is only banking companies. Future research can improve this research by using moderating variable data that is easy to find, extending the observation year so that the results are more relevant, and also examining other sectors, such as the manufacturing sector.

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