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The Role Of Financial Stability And Financial Targets In Reducing Fraud In Financial Reporting In Go Green Indonesia Companies

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Abstract

This study aims to analyze the effect of financial stability and financial targets on fraudulent financial reporting (FFR) in Indonesian go green companies, while examining the moderating role of firm size. The research seeks to provide empirical evidence on how financial conditions and managerial pressures influence fraud risk in sustainable firms. The study uses 21 companies listed in the SRI-KEHATI index for the 2016–2023 period, resulting in 168 firm-year observations. Panel data regression analysis was applied through the Fixed Effects Model (FEM) and Moderated Regression Analysis (MRA) to test both direct and moderating effects. The findings show that financial stability significantly reduces the likelihood of FFR, whereas financial targets significantly increase fraud risk. Firm size moderates these relationships by weakening the negative effect of financial stability and strengthening the influence of financial targets on FFR. This research is limited to companies in the SRI-KEHATI index, which may restrict the generalizability of the findings. The use of secondary data also limits the ability to capture qualitative factors influencing fraud behavior. The study contributes to theory by reinforcing the fraud triangle concept, particularly the pressure aspect, while offering novel insights into the moderating role of firm size. For practice, it provides recommendations for companies to maintain stability, set realistic targets, and improve governance, especially in large firms, to minimize fraud risk.

Keywords: *financial stability, financial targets, firm size, fraudulent financial reporting, go green companies.*

Introduction

Transparency and accuracy of financial reports are crucial elements in supporting informed decision-making for stakeholders, including investors, lenders, supervisory authorities, and the general public (Daffa & Herwiyanti, 2023) (Budiharjo & Supriatiningsih, 2020). As a tool for depicting a company's financial condition, reliable financial reports enable stakeholders to evaluate performance and objectively assess the company's financial stability (Alharasis et al., 2024). The integrity of financial reporting is the foundation of healthy financial market stability, as errors or manipulation in financial reporting can damage public trust and reduce the effectiveness of economic decision-making (Maple et al., 2023) (Ibrahim, et al, 2024) However, fraudulent practices in financial reporting are a significant threat that can shake public confidence in financial information and disrupt market stability as a whole (Nuryana et al., 2024). Misleading financial reporting refers to the act of manipulating a company's financial information to create an impression that is not in accordance with the actual conditions. Typically, this is done to meet stakeholder expectations, reduce the cost of capital, or improve the company's image (Piter & Nainggolan, 2024). Referring to the Association of Certified Fraud Examiners (ACFE) report, this practice accounts for a large portion of losses due to fraud in companies and has a broad impact on the company's reputation, public trust, and overall economic stability ((Mesioye & Bakare, 2024).

In Indonesia, the challenges associated with honest and transparent financial reporting are increasingly relevant, particularly in the context of economic uncertainty triggered by the COVID-19 pandemic. For example, many companies are facing severe financial pressure due to declining demand and supply chain disruptions, which in turn increases the risk of financial statement manipulation to

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meet market expectations or management's personal goals (Oriekhoe et al., 2024). This issue is further exacerbated by several high-profile cases of fraudulent financial reporting, such as in large companies in the public and private sectors, which have caused significant losses to investors and the Indonesian economy as a whole. Reports published by the Financial Services Authority (OJK) and the Supreme Audit Agency (BPK) also shows that a number of companies in Indonesia still face problems related to the transparency and integrity of their financial reports, despite efforts to improve financial supervision and regulation (Djamil, 2023).

Financial stability and financial targets are considered two key factors influencing fraudulent financial reporting practices (Akbar, 2017) Financial stability, which reflects a company's financial strength and resilience, provides an overview of the company's ability to face external pressures and market changes without resorting to manipulative practices ((Settembre-Blundo et al., 2021). Conversely, financial targets, which are profit or revenue growth targets set by management, often serve as a driver for management to manipulate financial statements to achieve these financial goals (Armstrong et al., 2015).

Literatur Review

Fraudulent Financial Reporting is more than just a technical accounting issue, because it is formed through the dynamics of internal and external factors such as pressure, opportunity, justification, ability, and corporate governance systems. (Aini & Sukanto, 2021). The supporting theories (fraud triangle, fraud diamond, fraud pentagon, agency theory, and prospect theory) provide a conceptual framework for understanding the causes of FFR and its prevention strategies. Fraudulent Financial Reporting is an act of manipulation in the preparation of a company's financial reports, intentionally to mislead users of financial reports, as measured by the Beneish M-Score theory approach.

Rumus Beneish M-Score (versi 8 variabel):

$$M = -4.84 + 0.920 \times DSRI + 0.528 \times GMI + 0.404 \times AQI + 0.892 \times SGI + 0.115 \times DEPI - 0.172 \times SGAI + 4.679 \times TATA - 0.327 \times LVGIM$$

Variable description

- DSRI (Days' Sales in Receivables Index):
- GMI (Gross Margin Index):
- AQI (Asset Quality Index):
- SGI (Sales Growth Index):
- DEPI (Depreciation Index):
- SGAI (Sales, General & Administrative Expenses Index):
- TATA (Total Accruals to Total Assets):

Interpretation M-Score:

$M > -2{,}22 \rightarrow$ Here is a big possibility that the company is manipulating financial reports (*red flag*).

$M < -2{,}22 \rightarrow$ There is no strong indication of manipulation.

Financial stability is a company's financial condition, reflecting its ability to maintain long-term business continuity without liquidity pressures. Other research shows that companies with stable financial conditions generally have more effective internal control systems, potentially reducing the risk of fraudulent practices in financial reporting (Sudimas et al., 2023). Conversely, companies experiencing financial difficulties or financial instability are more vulnerable to financial statement manipulation to meet stakeholder expectations (Ashma & Laksmi, 2023). Research by Samukri (2022) suggests that companies with financial stability tend to be more cautious in making financial decisions and pay more attention to reputational risk, which can reduce the incentive to commit fraud.

Financial stability may be assessed based on changes in total assets or the asset growth ratio.

$$FS = \frac{\text{Total Assets}_{1} - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$$

Financial targets are managerial pressures to achieve specific financial goals, such as profit or growth targets expected by management, investors, or other external parties. The setting of financial targets often becomes a demand for achieving certain financial results, often a motivating factor for managers to take actions that deviate from ethical principles (Difa, 2021),. Companies that focus on high finances often face pressure that is driven to manipulate financial reports to appear in accordance with the targets (Amiram et al., 2018). This study shows that pressure to achieve financial targets, such as profit projections or revenue growth targets, can encourage individuals or groups within an organization to commit fraud. Companies that target higher financial or targets that are very difficult to achieve tend to have a greater possibility of being involved in financial report manipulation (Amiram et al., 2018).. This condition occurs because overly high expectations often encourage unethical decision-making to maintain the company's image and achieve the set targets.

Financial targets can be evaluated through Return on Assets (ROA) or the difference between the achieved profit and the targeted profit.

$$FT = \text{Net Profit/Total Assets}$$

Firm size is a measure of a company's size. Firm size is often used as a control variable or moderator in financial analysis, for example, influencing the quality of financial reporting or strengthening the company's stability. A study by Olivia et al, (2024) This study aims to find that firm size has a positive effect on the integrity of financial reports. Firm size is measured through:

$$\text{logarithm of total assets}$$

Formulation of the Problem

Transparent and accurate financial reporting is crucial for informed decision-making and market confidence. However, fraud in financial reporting is detrimental to both companies and investors. Pressure to meet financial targets and maintain financial stability often leads to financial statement manipulation. Financial stability is believed to reduce the risk of fraud, but the relationship between the two remains uncertain. Ambitious financial targets have the potential to encourage management to manipulate. This study focuses on analyzing the role of financial stability as a moderating variable in the relationship between financial targets and financial statement fraud.

Hypothesis Development

The formulation of the hypothesis in this study is based on relevant theories and is supported by previous empirical findings regarding the determinants of practice. *fraudulent financial reporting*. Fraudulent financial reporting is an attempt by management to manipulate financial reports with the intention of misleading report users, generally to meet set targets or hide the true financial condition.(Esmailikia & Oshani, 2022).

The relationship between financial stability and fraudulent financial reporting.

Financial stability indicates a company's capacity to maintain a balanced and sustainable financial condition over the long term. According to the fraud triangle theory, pressure is one of the primary drivers of fraud (Kalbuana et al., 2022). Companies facing financial stability issues tend to experience high levels of pressure, which encourages management to manipulate financial statements.

financial statements to present a better condition than the actual one (Galeazzo et al., 2024). However, several previous studies have shown that financial stability can actually hurt fraudulent financial reporting, because financially stable companies have a lower risk of manipulation (Ginting & Daljono, 2023).

The results of several recent studies suggest that the financial conditions of unstable or fragile companies can increase the potential for financial statement manipulation. For example, Indriaswari et al. (2025) showed that in times of financial distress, a weak governance structure is not sufficient to prevent fraudulent reporting; in fact, financial distress strengthens the relationship between governance and fraud. Conversely, financial stability is believed to negatively impact such practices. The proposed hypothesis is:

H1: Financial stability hurts fraudulent financial reporting practices.

The Financial Target's relationship to *fraudulent financial reporting*.

Financial targets are typically assessed using profitability ratios, including the company's Return on Assets (ROA). Managers faced with high targets often feel pressure to achieve them. According to the fraud triangle theory, this situation increases the risk of management committing fraudulent financial reporting to appear capable of meeting these targets (Dechow et al., (1996), Beneish, (1999) Previous research also found that the higher the financial targets set, the greater the likelihood of a company committing fraudulent financial reporting (Fathmaningrum & Anggarani, 2021), Empirical research by Hernadi (2023) shows that managerial pressure, as measured by financial targets such as ROA, is positively related to the occurrence of fraudulent financial reporting. Managers tend to manipulate reports to meet these targets. Therefore, the following hypothesis is proposed:

H2: Financial targets have a positive effect on fraudulent financial reporting.

The relationship between financial stability and fraudulent financial reporting is moderated by firm size.

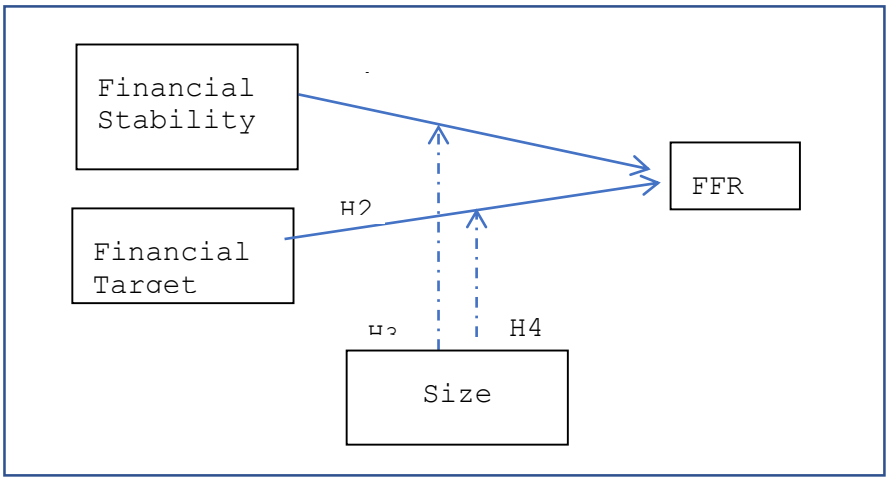
Company size serves as a moderating factor in the relationship between financial stability and fraudulent financial reporting. Larger firms are generally subject to more intense scrutiny from the public, regulators, and auditors, which reduces their likelihood of committing fraud (Hernadi, 2023). In contrast, smaller firms often possess weaker internal control systems, making them more susceptible to financial statement manipulation. Prior research demonstrates that company size moderates the relationship between financial condition and fraudulent behavior, either weakening or strengthening this association (Herdasaldy & Wijoyo, 2025). Although direct evidence regarding the moderation of financial stability and fraud by firm size remains limited, the methodological insights provided by Indraswari et al. (2025) regarding financial distress can serve as a relevant reference. Based on this premise, larger firms with stronger governance and more effective oversight mechanisms are likely to show a different effect of financial stability on fraudulent reporting compared to smaller firms.

H3: Company size affects the relationship between financial stability and fraudulent financial reporting.

The relationship between financial target and fraudulent financial reporting is moderated by firm size.

Companies experiencing pressure to achieve high financial targets, particularly under unstable financial conditions, tend to have a greater risk of engaging in fraudulent financial reporting. Such pressure can incentivize management to manipulate financial statements to meet expected performance benchmarks (Septriani & Handayani, 2018). This condition becomes more critical when stakeholders impose ambitious profitability or growth expectations, causing managers to prioritize short-term financial appearances over long-term sustainability. Firms operating in competitive environments may also feel compelled to maintain their market position by presenting favorable financial outcomes, even when these do not reflect actual performance. Therefore, the pursuit of stringent financial targets may increase the likelihood of fraud when firms are unable to reach these goals through legitimate operational performance

H4: Company size affects the relationship between financial target and fraudulent financial reporting.



Research Methods

The research population is companies that were once members of the Sri Kehati group, which are companies that are considered to meet sustainability, ethics, and socio-environmental responsibility standards, in addition to healthy business performance listed on the Indonesia Stock Exchange, as many as 16 companies in 2016-2023, with 168 observations.

This study uses multiple regression analysis to test the relationship between financial *stability* and *financial target* as an independent variable with fraudulent *financial reporting* as a dependent variable. To test the role of financial stability

As a moderating variable, this study used moderated regression analysis (MRA), which allows researchers to identify whether financial stability changes the strength of the relationship between financial targets and fraudulent financial reporting. Furthermore, descriptive analysis was used to describe the characteristics of the data and provide an overview of the distribution of variables in the sample.

This study uses normality, multicollinearity, heteroscedasticity, and autocorrelation tests to test the feasibility of the regression model. Furthermore, a significance test is performed using the α value p at the α = 0.05 level to determine the relationship between variables.

Through this approach, this study aims to provide strong empirical evidence regarding the factors that influence fraudulent financial reporting practices and to develop a better understanding of the influence of financial stability and financial targets on the integrity of financial reports in Indonesian companies.

Discussion

a. Descriptive Analysis

Descriptive analysis is conducted to present a general overview or summary of the characteristics of the research data."

Table 1. Descriptive Analysis

Date: 09/02/25 Time: 00:30
Sample: 2016 2023

	FFR	FS	FT	SIZE
Mean	-37.24781	0.205655	2.634881	10.14804
Median	-2.517948	0.070000	0.080000	9.200000
Maximum	2731.110	4.870000	31.75000	14.19000
Minimum	-2276.763	-0.860000	-0.010000	5.440000
Std. Dev.	349.1288	0.732443	7.266073	3.007939
Skewness	-0.582594	5.427984	2.854171	-0.010851
Kurtosis	45.78117	33.35601	9.874815	1.341520
Jarque-Bera	12821.11	7275.377	558.9377	19.25718
Probability	0.000000	0.000000	0.000000	0.000066
Sum	-6257.633	34.55000	442.6600	1704.870
Sum Sq. Dev.	20355782	89.59093	8816.901	1510.965
Observations	168	168	168	168

Source: Processed data

The average Financial Stability (FS) was recorded at 0.21 with a standard deviation of 0.73, indicating quite high variation. FS values ranged from –0.86 to 4.87, with a non-normal distribution as indicated by a skewness of 5.43 and kurtosis of 33.36. The Financial Target (FT) averaged 2.63 with high variation (SD 7.27), a minimum of –0.01 and a maximum of 31.75, the distribution skewed to the right (skewness 2.85) with a sharp peak (kurtosis 9.87). Company Size (Size) had an average of 10.15 with quite large variation (SD 3.01), a minimum of 5.44 to a maximum of 14.19, a relatively symmetrical distribution (skewness –0.01), and flat (kurtosis 1.34).

Overall, the descriptive results show a large diversity between variables: fraud indications (FFR) vary to extremes, financial stability (FS) tends to be low but some are very stable, financial targets (FT) are generally moderate but some are very ambitious, and company size (Size) varies from small to large.

Research Results

This study analyzes the influence of financial stability (FS) and financial target (FT) on fraudulent financial reporting (FFR), in addition, this study also tests the role of company size (SIZE) as a moderating variable.

Table 2. Redundant Fixed Effects Tests Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.795323	(20,143)	0.0262
Cross-section Chi-square	37.635097	20	0.0098

Source: Processed data

Based on the results of the Redundant Fixed Effects (Chow Test), the Cross-section F probability value was 0.0262 and the Cross-section Chi-square was 0.0098**.,** Both are smaller than the 5% significance level. This means that the null hypothesis (H0), which states that the Pooled Least Squares model is more appropriate, is rejected, and the alternative hypothesis (H1) is accepted. Thus, it can be concluded that the Fixed Effect model is more appropriate for use in this study.

Table 3. Summary of Fixed Effect Model (FEM) Regression Results

Variable	Coefficient	t-Statistic	Prob.	Interpretation

C (Constanta)	-66.927	-5.149	0.0000	Significant negative → low baseline FFR
Financial Stability (FS)	-439.7769	-7.801	0.0000	Significant negative → FS decreases FFR
Financial Target (FT)	45.9727	2.641	0.0092	Significant positive → FT increases FFR
SIZE*FS	32.1416	7.806	0.0000	Significant positive → SIZE weakens the effect of FS
SIZE*FT	-3.1094	-2.131	0.0348	Significant negative → SIZE suppresses the adverse effects of FT
FS*FT	-32.7977	-1.530	0.1261	Not significant → FS*FT interaction does not affect FFR

Source: Processed data

Table. 3. Goodness of Fit Model FEM

Statistics	Mark	Interpretation
R-squared	0.602	The model explains 60.2% of the variation in FFR.
Adjusted R-squared F-statistic Prob(F-statistic)	0.535 Significant 0.0000	After adjustment, the model remains quite good. The model is significant overall. Model fit for use
Durbin-Watson	1.80	There is no serious autocorrelation

Source: Processed data

Hypothesis of the Influence of Financial Stability on Fraudulent Financial Reporting

The results of the regression analysis indicate that FS has a significant negative effect on FFR, with a coefficient of –439.77, a t-value of –7.801, and a p-value of 0.0000. This means that the higher the financial stability, the lower the tendency of a company to manipulate its financial statements.

This finding can be explained by the fraud triangle theory, specifically the pressure element. Companies with stable financial conditions generally do not face significant liquidity pressures, so the incentive to commit fraud is relatively low. Conversely, companies with unstable financial conditions are at greater risk of manipulating financial statements to meet obligations to investors, creditors, and regulators.

The comparison is consistent with Aini (2021), who stated that financial stability reduces the risk of financial reporting fraud by strengthening internal controls, also in line with Hidayani (2024). The results of this study confirm that financial stability plays a major role in reducing the possibility of fraud occurring. and support the results Darmawan & Saragih (2017) stated that companies with stable finances tend to be more careful in reporting because they consider reputational risks.

Thus, this study confirms that financial stability is a consistent and robust protective factor in reducing the possibility of fraudulent financial reporting**.**

Hypothesis of the Effect of Financial Targets on Fraudulent Financial Reporting

The results of the study indicate that the effect of Financial Targets on FFR is inconsistent. In the FEM model, Financial Targets have a significant positive effect (coefficient 45.97; t = 2.641; p = 0.0092), meaning that the higher the financial targets set, the greater the tendency for companies to commit fraud. However, in the Pooled LS and REM models, the effect of Financial Targets is significantly negative. This finding demonstrates the ambivalent nature of financial targets.

- As a driving factor for fraud, overly ambitious financial targets can increase pressure on management. When actual performance falls short of targets, management may be compelled to engage in earnings management, even to the point of fraudulent activity.
- As a disciplinary tool, in companies with strong governance and internal controls, financial targets can motivate the achievement of real performance without manipulation.

The hypothesis regarding the influence of financial targets on fraudulent financial reporting is consistent with Amiram (2018). The results of this study indicate a significant positive relationship, consistent with previous findings that pressure to achieve profit targets encourages manipulative behavior. However, this result differs from the opposite finding by Darmawan (2017), who found that financial targets can improve reporting discipline. This difference is likely influenced by heterogeneity between companies in terms of governance quality, manager incentive structures, and external monitoring mechanisms.

Thus, this study contributes to the literature by confirming that the influence of financial targets is contextual: in companies with weak governance, financial targets tend to exacerbate fraudulent practices, while in companies with strong governance, they can actually reduce the likelihood of fraud.

Hypothesis. The Moderating Role of Firm Size

Firm size was tested as a moderating variable, and the results of the analysis showed that *SIZE* interaction* FS has a significant positive effect (coefficient 32.14; t = 7.806; p = 0.0000). This finding indicates that the larger the company size, the weaker the negative effect of FS on fraud. In large-scale companies, financial stability is no longer a major differentiating factor because they generally have broader access to funding and stronger investor support. Furthermore, the interaction of SIZE*FT* was found to have a significant negative effect (coefficient –3.11; t = –2.131; p = 0.0348), which means that in large companies, the negative impact of ambitious financial targets can be minimized. This can be explained because large companies generally have more effective internal control mechanisms, boards of commissioners, and external auditors so that financial targets do not directly encourage fraud. This study is in line with Indriana & Kawedar (2019) which emphasizes that large companies with better corporate governance are better able to control risk fraud. However, the finding that SIZE weakens the protective role of FS is a novel contribution. This suggests that in large companies, a high level of financial stability does not necessarily guarantee a low level of fraud, as governance factors and business complexity play a greater role than financial stability itself.

Model Feasibility and Classical Assumption Test

The Fixed Effect Model (FEM) has an R^2 value of 0.602, which means it can explain 60.2% of the variation in Fraudulent Financial Reporting (FFR)**.** This value is higher than the Pooled Least Squares (PLS) model, which only explains 48.3% of the variation, and the Random Effects Model (REM), which explains 47.5% of the variation. Furthermore, the F-test results show that the FEM model is statistically significant with a p-value of 0.0000**,** so that the model can be considered fit for use.

The results of the classical assumption test show:

- There is no multicollinearity, correlation between independent variables < 0.20.
- There is no heteroscedasticity, based on the Glejser test, all p-values > 0.05.
- The autocorrelation in this model is minimal**,** indicated by the Durbin-Watson value (DW) of 1.80, which is close to the ideal figure of 2. This indicates that there is no serious problem with residual autocorrelation.

Research Implications

In terms of theoretical implications, the results of this study support the fraud triangle theory, particularly the pressure aspect, indicating that financial targets are contextual and can either strengthen or weaken fraud, depending on the level of corporate governance. This study makes a novel contribution by showing that firm size can weaken the role of financial *stability* but strengthen the role of financial *target*. The practical implication of this finding is that companies with an environmentally friendly orientation (*go green company*) need to maintain financial stability through optimal management of liquidity, profitability, and debt to minimize the risk of fraud. Furthermore, management needs to set realistic financial targets to avoid excessive pressure that could lead to report manipulation. Large

companies must also remain vigilant, because despite their stable financial condition, business complexity and high public expectations make them more vulnerable to fraudulent practices.

Conclusion

The study finds that Financial Stability negatively and significantly affects Fraudulent Financial Reporting, while the effect of Financial Target remains inconsistent. Firm Size consistently moderates the relationship and, as a novel insight, is found to weaken the impact of Financial Stability on fraudulent reporting. These findings enrich the literature and contribute empirical evidence within the Indonesian corporate context, particularly in advancing the go-green agenda.

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