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Motives Of Management's Opportunistic Behavior In Fraudulent Financial Reporting In Manufacturing Companies Listed On The Bei

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Abstract

Fraudulent financial reporting represents a critical corporate issue because it diminishes the reliability of accounting information and may negatively affect investors, creditors, regulators, and broader stakeholders. This study was conducted to examine determinants influencing the risk of fraudulent financial reporting by applying the Fraud Hexagon Theory framework to manufacturing companies listed on the Indonesia Stock Exchange (IDX). A quantitative explanatory design was employed using secondary data derived from annual reports and financial statements during 2022–2024. Through purposive sampling, 60 manufacturing firms were selected, generating 180 firm-year observations. Fraud risk was proxied using the F-Score Model, while hypothesis testing utilized Structural Equation Modeling–Partial Least Squares (SEM-PLS). Empirical findings indicate that the explanatory capacity of Fraud Hexagon variables toward fraudulent financial reporting remains relatively limited. Nevertheless, nature of industry and political connection variables demonstrated statistically meaningful effects at the 10 percent significance level. In contrast, external pressure, change in director, change in auditor, and CEO pictures were not found to significantly influence fraudulent financial reporting. These findings imply that industrial operational characteristics and political affiliations may provide important early warning indicators for identifying fraudulent financial reporting practices in Indonesian manufacturing firms.

Keywords: Fraudulent Financial Reporting, Fraud Hexagon, Opportunistic Behavior, F-Score, Manufacturing Companies.

INTRODUCTION

Fraudulent financial reporting constitutes a substantial form of organizational misconduct because it directly threatens the credibility and transparency of financial information relied upon by investors, creditors, regulators, and other stakeholders

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(Yulianti et al., 2024; Situngkir & Triyanto, 2020). Financial statements should accurately reflect corporate economic performance; however, managerial opportunistic behavior may encourage manipulation intended to achieve personal or institutional objectives.

Within Indonesia, multiple cases involving listed corporations reveal that governance structures, external audits, and regulatory standards may not always be sufficient to fully mitigate the occurrence of financial statement fraud (Achmad et al., 2022). Manufacturing firms are particularly exposed to such risks due to their operational complexity, substantial inventory balances, extensive asset ownership, and broader discretionary accounting estimates (Sari et al., 2022; Susanto & Triyani, 2025).

Fraud Hexagon Theory extends previous fraud frameworks by incorporating six interconnected dimensions, namely pressure, opportunity, rationalization, capability, arrogance, and collusion (Achmad et al., 2022; Sherliyawati & Kusumawati, 2025). This broader perspective enhances the understanding of managerial motives and behavioral tendencies underlying fraudulent reporting practices.

This study specifically evaluates the influence of external pressure, nature of industry, political connection, change in director, change in auditor, and CEO pictures on fraudulent financial reporting among manufacturing firms listed on the Indonesia Stock Exchange.

Objectives

1. To evaluate the impact of external pressure on fraudulent financial reporting.
2. To analyze the effect of nature of industry on fraudulent financial reporting.
3. To examine the role of political connection in fraudulent financial reporting.
4. To assess the influence of change in director on fraudulent financial reporting.
5. To determine the effect of change in auditor on fraudulent financial reporting.
6. To investigate the relationship between CEO pictures and fraudulent financial reporting.

LITERATURE REVIEW

Agency Theory

Agency theory describes the contractual relationship between principals (owners) and agents (management), where managers are entrusted with organizational resource management to maximize shareholder interests. However, conflicts frequently arise when managerial interests diverge from those of owners.

This conflict is intensified by information asymmetry, where management possesses more comprehensive internal information than shareholders. Such

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asymmetry creates opportunities for opportunistic managerial actions, including financial statement manipulation through accounting flexibility. Consequently, agency theory provides an essential theoretical foundation for understanding fraudulent financial reporting behavior (Sari et al., 2022)

Fraud Hexagon Theory

Fraud Hexagon Theory encompasses six principal dimensions:

1. Pressure
2. Opportunity
3. Rationalization
4. Capability
5. Arrogance
6. Collusion

Collectively, these dimensions offer a more comprehensive framework for explaining financial reporting fraud compared with prior fraud models. Unlike earlier approaches focused primarily on pressure and opportunity, Fraud Hexagon Theory integrates behavioral, strategic, and relational components into fraud analysis.

According to Achmad et al. (2022), these six dimensions interact dynamically rather than independently. Fraudulent reporting frequently emerges from simultaneous interactions among multiple fraud drivers. Prior empirical studies indicate that the significance of each Fraud Hexagon element varies depending on industry context and organizational characteristics (Aulia et al., 2025; Sherliyawati & Kusumawati, 2025). Therefore, examining this model within manufacturing firms remains highly relevant for sector-specific fraud detection.

METHODOLOGY

This study applied an associative quantitative research design intended to examine causal relationships between independent and dependent variables through numerical data analysis. Quantitative explanatory research was selected because it enables objective and measurable evaluation of the impact of Fraud Hexagon variables on fraudulent financial reporting.

According to Sugiyono (2020), associative research is designed to identify causal relationships among variables. Therefore, this study not only describes observable phenomena but also explains the influence of selected Fraud Hexagon components on financial statement fraud risk in Indonesian manufacturing companies

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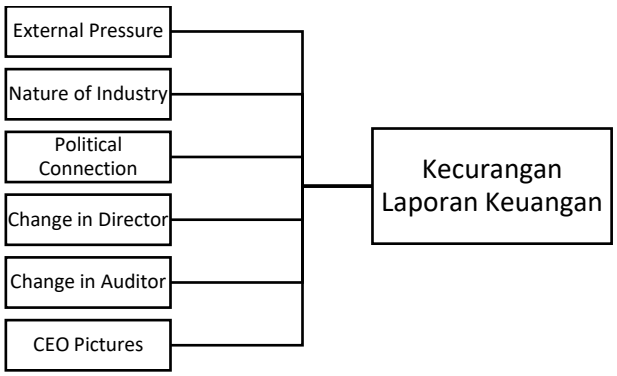


Figure 1: Research Design

The research population consisted of manufacturing companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Purposive sampling procedures produced a final sample of 60 companies, resulting in 180 firm-year observations.

Data sources in this study include:

- Annual Reports
- Financial Statements
- Indonesia Stock Exchange official website

The data analysis techniques in this study were used to process, analyze, and interpret the collected data to answer the problem formulation and test the research hypothesis with the help of statistical software that is appropriate to the data characteristics and research objectives. This study used the Structural Equation Modeling approach based on Partial Least Squares (SEM-PLS) as the main analysis method because SEM-PLS does not require normally distributed data, is able to test relationships between variables simultaneously, and is relevant for use in fraud and financial accounting research with complex structural models. The analysis stage began with descriptive statistical analysis to provide an overview of the data characteristics through the minimum, maximum, mean, and standard deviation values of each variable, so that researchers can understand the pattern of data distribution before further testing is carried out. Furthermore, this study also applied classical assumption tests as supporting analysis that included normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure data quality and strengthen the interpretation of the results, although these tests are not the main requirements in SEM-PLS. The main stage is carried out through SEM-PLS analysis which consists of evaluating the structural model (inner model) to assess the ability of independent variables to explain the dependent variable through the R-square value, as well as

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testing the significance of the relationship between variables using the bootstrapping procedure to obtain the path coefficient, t-statistic value, and p-value. This study uses a significance level of 10% (α = 0.10) according to the characteristics of exploratory research, where the hypothesis is declared accepted if the p-value is smaller than the predetermined significance level.

DISCUSSION

This research analyzed 180 observations from 60 manufacturing companies during 2022–2024.

Variabel	Mean	Std Dev
F-Score	-0.0189	0.1162
Political Connection	0.1056	0.3081
Change Director	0.1333	0.3409
Ceo Pictures	2.2222	0.8688
External Pressure	0.3791	0.1982
Nature of Industry	-0.035	0.1868

Table 1: Descriptive Statistics

Descriptive statistical analysis was used to provide an overview of the characteristics of the research data based on the mean, data range, and standard deviation of 180 company-year observations. The results show that the F-Score variable has an average of -0.0189, indicating that the risk of financial statement fraud in the sample companies is relatively low, with data variation that is still considered reasonable. Political Connection has an average of 0.1056, indicating that only a small number of companies have political connections. Change Director of 0.1333 indicates a change in directors in several companies during the study period. CEO Pictures has an average of 2.2222, reflecting the level of CEO exposure in the annual report. External Pressure, measured by leverage, shows an average of 0.3791 or is at a moderate level, while Nature of Industry of -0.0350 indicates differences in industry characteristics among the sample companies.

Classical Assumption Tests:

- Normality testing confirmed normally distributed residuals.
- Multicollinearity testing showed VIF values below acceptable thresholds.
- Heteroscedasticity testing indicated no substantial variance inconsistency.
- Durbin-Watson statistics suggested no significant autocorrelation issues.

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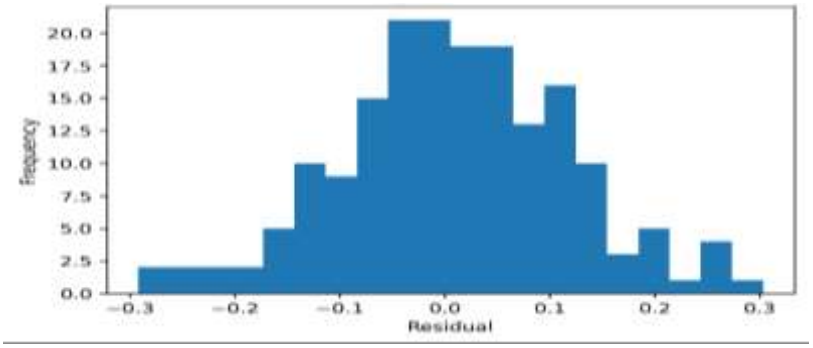


Figure 2: Histogram Residual

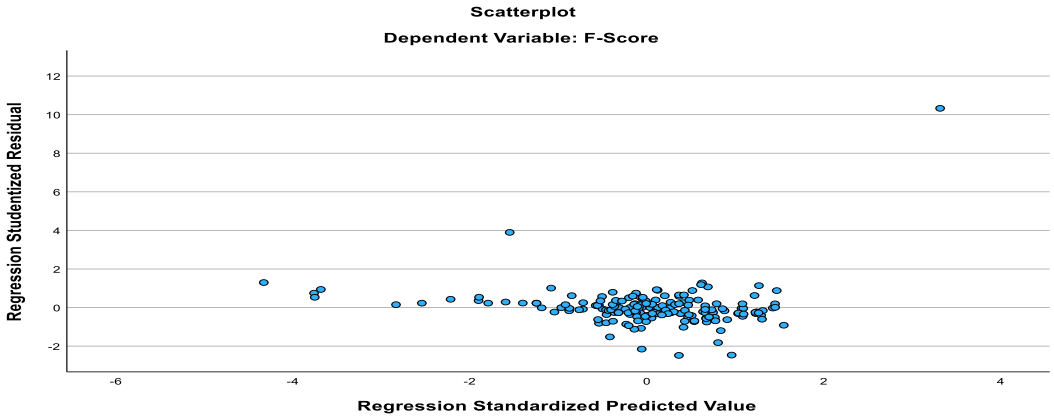


Figure 3: Scatterplot Heteroscedasticity Test

Structural Equation Modeling–Partial Least Squares (SEM-PLS) was used to evaluate the relationship between Fraud Hexagon variables and fraudulent financial reporting.

- R-Square = ±0.051
- Fraud Hexagon variables explain 5.1% of fraudulent reporting variation.

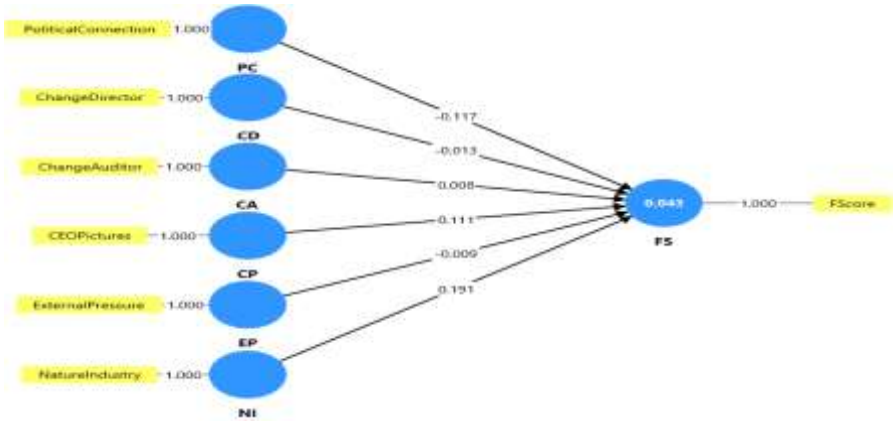


Figure 4: Scatterplot Heteroscedasticity Test

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	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
CD -> FS	-0.014	-0.017	0.063	0.219	0.827
CP -> FS	0.111	0.088	0.099	1.125	0.261
EP -> FS	-0.009	0.004	0.133	0.066	0.947
NI -> FS	0.191	0.171	0.113	1.700	0.089
PC -> FS	-0.115	-0.105	0.067	1.721	0.085

Table 2: Hypothesis Testing Results

Results indicate that nature of industry and political connection were significant at the 10 percent significance level, while other variables did not demonstrate statistically significant effects.

The empirical findings suggest that:

- **Nature of Industry** significantly affects fraudulent financial reporting, implying that manufacturing operational complexity increases manipulation opportunities (Zahara & Ratnawati, 2024).
- **Political Connection** significantly influences fraud risk, reflecting the role of collusion within Fraud Hexagon Theory (Humaira et al., 2024).
- **External Pressure, Change Director, and CEO Pictures** do not significantly affect fraudulent reporting.
- **Change Auditor** could not be optimally evaluated due to limited variation.

These findings reinforce prior literature emphasizing that contextual industrial complexity and political relationships may serve as stronger fraud predictors than generalized fraud indicators.

This study confirms that not all Fraud Hexagon dimensions possess equivalent predictive power regarding fraudulent financial reporting. Sector-specific conditions and political factors appear more influential than broader fraud constructs.

CONCLUSION

This study concludes that Fraud Hexagon Theory does not uniformly explain fraudulent financial reporting within Indonesian manufacturing firms. Among examined variables, nature of industry and political connection were found to significantly influence fraudulent financial reporting risk, while other variables showed limited explanatory contribution.

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These findings suggest that manufacturing sector characteristics and political affiliations should receive greater attention from regulators, auditors, and investors when developing fraud detection mechanisms

For future research:

- Incorporate additional variables such as governance mechanisms, ownership structures, or audit quality.
- Consider alternative fraud proxies.
- Integrate quantitative and qualitative approaches for broader analytical depth.

For practitioners and regulators:

- Utilize industry and political indicators as part of early detection systems for fraudulent financial reporting.

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