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THE EFFECT OF COMPANY SIZE, FINANCIAL STABILITY AND EXTERNAL PRESSURE ON FINANCIAL STATEMENT FRAUD

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ABSTRACT

The purpose of the research to be conducted is to determine the effect of to company size, financial stability, and external pressure on the financial statement fraud in food and beverage companies. Researchers used the documentation method, the entire population of 16 food and beverage companies listed on the Indonesia Stock Exchange after being outliers became 14 companies, 3 years of research from 2019-2021. Data analysis techniques using the classical assumption test, descriptive statistics, multiple linear regression analysis and test the coefficient of determination. The results of this study, which employs several linear regression analytic techniques, demonstrate that the factors of company size, financial stability and external pressure have little bearing on financial statement fraud.

Keyword : Company Size, Financial Stability, External Pressure, Financial Statement Fraud

1. INTRODUCTION

Financial reports are the end result of all business transaction activities and are beneficial to both internal and external parties who use financial statements Prihadi (2019) in Siswantoro (2020). The corporation must provide complete, pertinent, and accountable information in its financial accounts. The company will try to produce good and correct financial reports in order to show positive results from the company's financial performance, this can also encourage companies to improve their performance. In reality, financial performance is not always in a good position as expected, this can make agents manipulate financial reports to keep them looking good in the eyes of the principal. This financial report fraud can be detrimental to users of financial statements, as its function is used for basic decision making, financial reports that have been manipulated can no longer be a reference for making decisions because the information contained therein does not match reality or is irrelevant.

Corporate financial statement fraud is influenced by a variety of circumstances, including company size, financial stability, and outside pressure. The size of a firm is determined by its entire amount of assets Ferdinand (2020). It may be argued that a corporation performs better the more assets it has. Companies that have large assets and are able to optimize their assets can improve company performance Vidyasari, et al., (2021). Large companies will result in information asymmetry within the company increasing compared to companies that are smaller in size Fitriyani & Noviyanti (2021). This information asymmetry results in the board of commissioners always supervising and

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controlling management performance in order to minimize fraud. Research by Siswantoro (2020) it supports this claim by showing that firm size has a negative effect on fraud in financial statements. The size of the company, according to study by Morisca *(*2022) has a considerable favorable impact on fraud in financial statements. Financial stability can reduce fraud in financial statements as well. As the business's situation improves or becomes more stable, the level of fraud will decline. This statement is supported by research conducted by Mulyaningsih & Merawati (2018) which demonstrates that the impact of financial stability on fraud in financial statements is negative, however study done by Mardianto & Tiono (2019) demonstrates that the prevention of financial statement fraud is facilitated by financial stability. Stable financial conditions will increase investors' interest in the company and give investor confidence in investing in the company.

External pressure has a one-way relationship with financial statement fraud, in contrast to corporate size and financial stability. The likelihood of financial statement fraud increases when management is under more stress. External pressure, which is connected to the cash loaned to the company, is the pressure placed on management to meet the expectations of external stakeholders. When a firm has a high debt load, outside parties worry that the company won't be able to pay back its loans. This assertion is supported by the findings of research by Mulyaningsih & Merawati (2018) it clarifies that pressure from the outside has a considerable impact on financial statement fraud. This external force is what motivates management to engage in fraudulent behavior. As opposed to the research of Mulyaningsih and Merawati (2018), research by Ijudien (2018) research reveals that external pressure has a detrimental and little impact on fraud in financial statements.

Based on the above background, with the results of previous studies that still show inconsistencies, it is considered necessary to conduct further research. So that the authors wish to conduct research on factors that can affect fraud in financial statements such as company size, financial stability and external pressures found in food and beverage companies listed on the IDX.

2. LITERATURE REVIEW

2.1 Theoretical Study

Agency Theory

Jensen and Meckling (1976) explain the agency relationship in the agency theory that the company is a collection of contracts (nexus). Agency theory that the company is a collection of contracts (nexus of contracts) between the owners of economic resources (principals) and managers (managers). Of contracts between the owners of economic resources (principal) and managers (agent) who manage the use and control of these resources. Agent who take care of the use and control of these resources. Jensen and Meckling (1976) explain that there are two types of agency relationships, namely between managers and shareholders and between managers and lenders (bondholders). Agents are subordinates of principals who are recruited or appointed to work and run the company in the interests of shareholders (principals).

Financial Statement Fraud

Fraud in financial statements is a deliberate act of fraud committed by companies, so that their financial statements look better than they actually are Yusroniah (2017) in Siswantoro (2020). This behavior greatly impacts the integrity of the financial report because the financial report are one of the responsibilities for management to the users of the financial statements. Financial reports are used as the basis for measuring the company, resulting in management as an agent must present financial reports that are stable and even increase every year. Presentation of good financial statements, making principals or shareholders have full confidence that management can work well, this is also related to investors or creditors who want to invest their capital in the company. This demand results in management being responsible for producing good financial reports and triggering fraud. This fraud causes the information in the financial statements to be inaccurate Mulyaningsih & Merawati (2018).

Company Size

Company size is a measurement of how big the company is and can be grouped into three categories, namely large, medium and small (Pratiwi & Khairani, 2022). Large companies must have large assets as well. Companies with large assets have better internal controls than companies with small assets (Mardianto & Tiono, 2019). This implies that managerial fraud is less prevalent the better the internal control a company has.

Financial Stability

Financial stability is very important for companies. When a company's finances are in an unstable condition, management will make every effort to restore financial stability and make the company look good (Rusmana & Tanjung, 2020). Unstable and declining financial conditions will result in shareholders who are not sure whether the agent is able or not to run the company properly. This will motivate management to falsify financial reporting for the organization.

External Pressure

Excessive external pressure is placed on management to fulfill the demands and expectations of external parties (Kurniawati and Nurmala, 2020). In order to obtain a loan, the company must first convince the creditors that the company can repay all loans received, this is related to the financial report made by the company. Management needs to improve its performance so that creditors are willing to invest in the company. When a company has a high level of debt, it means that it owes a lot of money and there is concern that it won't be able to pay it back. As a result, management, who is in charge of running the company, is under a lot of pressure. This is conceivable because the business is heavily indebted and at risk of going bankrupt.

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2.2 Hypothesis

2.2.1 Company size

Company size is a description of the company with total assets owned. Assets owned by a firm can determine its wealth; the more assets it has, the higher its operating profit and the more investors and creditors will have faith in it (Mardianto & Tiono, 2019). Large companies also have a good level of supervision (Siswantoro, 2020). This supervision is carried out so that management can work properly and minimize fraud. The bigger the company, the less fraud will occur. The research of Siswantoro (2020), which demonstrates that firm size has a detrimental and negligible impact on financial statement fraud, lends support to this assertion. The relationship between agency theory and company size is that a company with a large size will have a good supervisory system as well. The goal is that management as an agent can continue to be supervised and controlled by shareholders (principals). This supervision will make the agent work and try as much as possible to achieve and realize what the principal wants. Accordingly, the following hypothesis can be prepared:

H1: Company size has a negative effect on fraudulent financial statements.

2.2.2 Financial Stability

Financial stability is seen to be a risk factor for financial statement fraud in businesses. When a corporation performs poorly, its financial stability suffers, and this circumstance results. The lack of financial stability of the organization will put pressure on management, who may then distort financial statements (Siswantoro, 2020). Owners of the firm will put pressure on management to strive to maintain the company's finances in a stable condition because when the company's financial situation is steady, investors will invest their capital. The level of fraud decreases with financial stability for the company. This claim is supported by research showing that financial stability has a detrimental and insignificant impact on fraud in financial statements (Mulyaningsih & Merawati, 2018). The relationship between agency theory and financial stability is that management (agents) who are given full responsibility by the principal to run the company must be able to maintain the company's financial stability so that the company looks good. Good corporate finance will make investors and creditors interested in investing their capital in the company. Based on this, a hypothesis can be made:

H2: Financial stability has a negative effect on financial statement fraud.

2.2.3 External Pressure

External pressure is undue pressure placed on management to fulfill the demands of outside parties. The high debt ratio owned by the company can also create external pressure. A high debt ratio results in the views of investors and creditors being less confident in the company to invest their capital. The concern of investors and creditors is because if the debt ratio is high, there is a possibility that the company will go bankrupt and cannot return all

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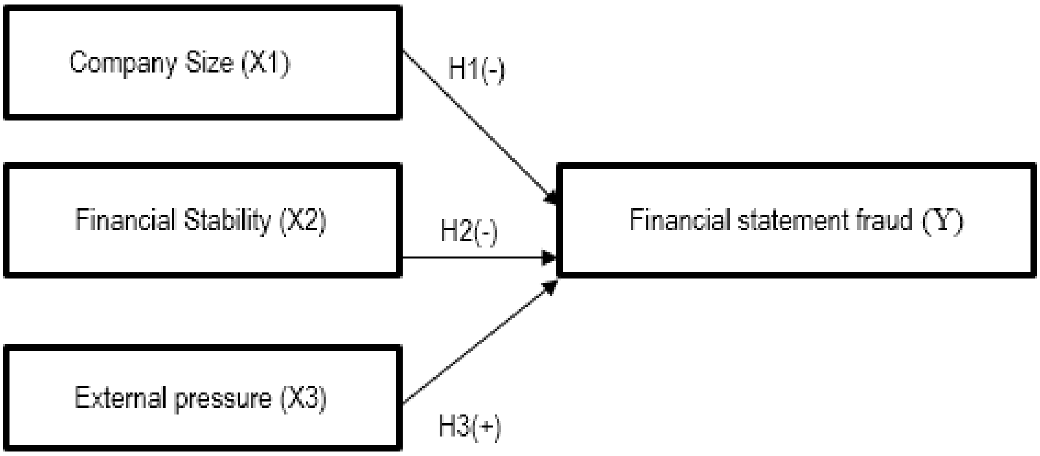
the loans it has obtained (Siswantoro, 2020). This great pressure on management will trigger fraud in financial report. Research by(Mulyaningsih & Merawati, 2018) which demonstrates the impact of outside pressure considerable favorable influence on fraudulent financial reporting, lends weight to this assertion. The relationship between agency theory and external pressure is that management as an agent has full responsibility to improve company performance and produce good financial reports. The better the financial statements produced by the company, the more confident the external parties are to invest their capital and the pressure felt by the company will decrease. Based on this justification, the following assertion can be madeed:

H3: External pressure has a positive effect on fraudulent financial statements.



Picture 2.1 Framework of thinking

3. RESEARCH METHODS

This study's survey method makes use of quantitative techniques. Food and beverage businesses listed on the IDX in 2019–2021 make up the research population. Purposive sampling is used in this study's sample process. Based on the predetermined criteria, 16 businesses were chosen as samples and after being outliers became 14 companies, and a total of 3 years of observation allowed for the collection of 42 samples of data. Documentary data were employed in this investigation. The financial statements of the food and beverage firms listed on the IDX in 2019–2021, this can be found at www.idx.co.id, the official website of the Indonesia Stock Exchange, served as the survey's source of documentary data. Multiple linear regression analysis techniques are used in the data analysis process. In this investigation, the regression equation is:

$$KLK = \alpha - \beta 1\ UK - \beta 2\ SK + \beta 3\ TE + \varepsilon$$

Keterangan:

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KLK	= financial statement fraud
A	= constant
β1; β2; β3	= regression coefficient
UK	= Company Size
SK	= Financial stability
TE	= External Pressure
ε	= standar error

Tabel 3.1
Variable operational definition

Variable	Operational Definition	Indicator	Measurement Scale
Company Size (X1)	Company size is a description of the company with total assets owned. Assets owned by a firm can determine its wealth; the more assets it has, the higher its operating profit and the more investors and creditors will have faith in it (Mardianto & Tiono, 2019).	1. Total assets of the company	Size = Ln(Total assets)
Financial Stability (X2)	Financial stability is seen to be a risk factor for financial statement fraud in businesses. When a corporation performs poorly, its financial stability suffers, and this circumstance results. The lack of financial stability of the organization will put pressure on management, who may then distort financial statements (Siswantoro, 2020).	1. Total assets of the company	Achange = (Total Assets$_{(t)}$ – Total assets$_{(t-1)}$) / Total Assets$_{(t)}$
External Pressure (X3)	External pressure is undue pressure placed on management to fulfill the demands of outside parties.	1. Total assets of the company 2. Total Liability	Lev = Total Liability / Total Assets
Financial Statement Fraud (Y)	Fraud in financial statements is a deliberate act of fraud committed by companies, so that their financial statements look better than they actually are (Yusroniah, 2017) in (Universitas Negeri Semarang & Siswantoro, 2020).	1. Financial Statement Company	M-score

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4. RESEARCH RESULTS AND DISCUSSION

4.1 Descriptive Statistical Test

Table 4.1
Results Descriptive Statistical Test

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Statement Fraud	42	-5.5600	4.4900	-1.319048	2.1901084
Company Size	42	4.59	12.10	7.1045	1.77752
Financial Stability	42	-.2500	.4100	.033333	.1371250
External Pressure	42	.03	.74	.3843	.18660
Valid N (listwise)	42				

Source: Secondary Data Processed 2023

Financial statement fraud has a minimum value of -5.5600, a maximum value of 4.4900, an average value (mean) of -1.319048, and a standard deviation of 2.1901084, according to the test findings in table 4.1. The range of values for company size is 4.59 to 12.10, with a mean of 7.1045 and a standard deviation of 1.77752. With a mean value of 0.33333 and a standard deviation of 0.1371250, financial stability ranges from a low value of -0.2500 to a maximum value of -0.4100. With a mean value of 0.3843 and a standard deviation of 0.18660, the external pressure has a range from 0.03 to 0.74.

4.2 Classical Assumption Test

4.2.1 Normality Test

Table 4.2
Result Normality Test

	Unstandardized Residual
Kolmogorov-Smirnov Z	1.154
Asymp. Sig (2-tailed)	.139

Source: Secondary Data Processed 2023

The asymp. Sig. (2-tailed) value in table 4.2 is 0.139. The computed significance value is 0.139 larger than the significant value of 0.5, indicating that all of the study's variables' residuals have a normal distribution.

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4.2.2 Autocorrelation Test

Table 4.3
Result Autocorrelation Test

	Unstandardized Residual
Asymp. Sig. (2-tailed)	.876

Source: Secondary Data Processed 2023

Based on the autocorrelation test in Table 4.3, the significant value is 0.05, and the asymp. Sig. (2-tailed) value is 0.876. Given the significance value of 0.876 > 0.05, It cannot be said that regression model contains autocorrelation.

4.2.3 Multicollinearity Test

Table 4.4
Result Multicollinearity Test

Variable	Tolerance	VIF	Information
UK	.901	1.110	No Multicollinearity
SK	.885	1.129	No Multicollinearity
TE	.979	1.021	No Multicollinearity

Source: Secondary Data Processed 2023

The test findings in Table 4.4 indicate that the VIF value is 1.110 < 10 and that the tolerance value for firm size is 0.901 > 0.10. With a VIF value of 1.129 < 10, the financial stability variable tolerance has a value of 0.885 > 0.10. The VIF value is 1.021 < 10 and the external pressure variable tolerance has a value of 0.979 > 0.10. The tolerance and VIF values indicate that there is no multicollinearity between the independent variables in the regression model.

4.2.4 Heteroscedasticity Test

Table 4.5
Result heteroscedasticity Test

Variable	Sig.	Information
UK	.210	No Heteroscedasticity
SK	.278	No Heteroscedasticity
TE	.201	No Heteroscedasticity

Source: Secondary Data Processed 2023

Table 4.5 findings show that the variable significant value for firm size is 0.210 > 0.05. With a significance level of 0.278 > 0.05, the financial stability variable is significant. A significance value of 0.201 > 0.05 is assigned to the external pressure variable. The results tests demonstrate that the regression model is heteroscedasticity free.

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4.3 Test the Coefficient of Determination

Table 4.7
Result Determination Test
Model Summary[b]

Model	R	R square	Adjusted R Square	Std. Error of The Estimate
1	.317[a]	.101	.030	2,1574

Source: Secondary Data Processed 2023

The adjusted R square value, or 0.030 or 3%, is shown in Table 12. This demonstrates the study's independent variables company size, financial stability, and external pressure, can only account for 3% of the Fraud in financial statements variable, the remaining 97% is explained by factors outside the scope of the study.

4.4 Hypothesis Test Results

Table 4.6
Hipothesis Test Results

Variable	B	t	Sig.	Conclusion
(Constant)	-1.585			
UK	-.018	-.090	.929	Rejected
SK	-5,185	-1.985	.054	Rejected
TE	-.573	-.314	.755	Rejected

Source: Secondary Data Processed 2023

The impact of every independent variable on the dependent variable will be explained using table 4.6 as a basis:

4.4.1 First Hypothesis Test

Company size (X1) receives a relevance score of 0.929 based on table 4.6. It uses a significance level of 0.05. Because the significance value of firm size is bigger than the significance value that has been applied (0.929> 0.05), the following hypothesis test outcomes are H1 rejected and H0 accepted. Therefore, it is concluded in this study that the size of the company has no bearing on Fraud in financial statements. Company size has an insignificant effect because company size is not a guarantee that the company will work well. This happens because management is less effective in maximizing the assets owned by the company. The greater the company's assets should be able to improve company performance and prevent fraud.

4.4.2 Second Hypothesis Test

Financial stability (X2) receives a significance score of 0.054 based on Table 4.6. The significance level used is 0.05. As a result of the significance value of financial stability exceeding the applicable significance value (0.054>0.05), the following hypothesis reveals that H0 is accepted and H1 is rejected. Therefore, it can be said from this study's findings that financial stability has no effect on Fraud in financial statements. Financial stability as

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measured using ACHANGE has an insignificant effect because changes in total assets owned by the company are not fully able to influence financial statement fraud.

4.4.3 Third Hypothesis Test

External pressure (X3) receives a significance score of 0.755 based on table 4.6. The significance level used is 0.05. Due to external pressure's significance value exceeding the applied significance value (0.755>0.05), the following hypothesis test findings are H1 rejected and H0 accepted. Therefore, it is claimed in this study that external pressure has no bearing on Fraud in financial report. External pressure has an insignificant effect because the external pressure received by management is not fully able to make management commit fraud on financial statements. This is because there is an option that companies can look for other sources of funding such as by reissuing company shares, so that the debt owned by the company can be paid off.

5 CONCLUSION

The following conclusions can be reached based on the findings of relevant research on the elements that contribute to financial reporting fraud: Research and analysis have revealed that firm size has little bearing on misleading financial reporting in the food and beverage industry. According to the research and discussion section's findings, food and beverage companies' deceptive financial reporting is unaffected by their financial health. Study and discussion findings indicate that external pressure has no impact on food and beverage companies' deceptive financial reporting.

6 IMPLICATIONS

1. This research is expected to contribute to enriching the results of research on the effect of company size, financial stability, and external pressure on financial statement fraud so that it can be used as an illustration for future researchers the next researchers.

2. The study shows that partially, company size, financial stability, and external pressure have no significant effect on financial statement fraud. On financial statement fraud. This implies that any increase or decrease in company size, financial stability, and external pressure will not affect financial statement fraud.

3. This study shows that simultaneously, company size, financial stability, and external pressure have no significant effect on financial statement fraud, this implies that any increase or decrease that occurs in company size, financial stability, and external pressure together cannot affect financial statement fraud.

LIMITATIONS AND ADVICE

The limitations of the study only used three independent variables and were only carried out in food and beverage companies listed on the IDX with a sample of 14 companies

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with the year of research conducted for the 2019-2021 period so that only 42 observations were produced. This study recommends that future research be expanded by include new factors, altering the study's focus, and lengthening the observation period so that the findings can accurately reflect the actual situation.

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