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DO POLITICAL CONNECTIONS FACILITATE FINANCIAL STATEMENT MANIPULATION? EVIDENCE FROM EARNINGS VOLATILITY AND FINANCIAL TARGETS (AN EMPIRICAL STUDY OF STATE-OWNED ENTERPRISES AND THEIR SUBSIDIARIES LISTED ON THE INDONESIA STOCK EXCHANGE FROM 2021 TO 2024)

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Abstract

This study aims to analyze the influence of earnings volatility and financial targets on financial statement manipulation, with political connections as a moderating variable, in SOEs and SOE subsidiaries listed on the Indonesia Stock Exchange for the 2021–2024 period. The study employs a quantitative approach using secondary data obtained from companies' financial statements and annual reports. The research sample was selected using purposive sampling, resulting in 25 companies with a total of 100 firm-year observations. Financial statement manipulation was measured using the Beneish M-Score, while data analysis was conducted using linear regression and moderated regression analysis. The results indicate that earnings volatility does not affect financial statement manipulation, whereas financial targets have a positive effect on financial statement manipulation. Furthermore, political connections fail to moderate the effect of earnings volatility on financial statement manipulation but amplify the effect of financial targets on financial statement manipulation. These findings confirm that pressure to achieve performance targets and opportunities arising from political connections are important factors that increase the risk of financial statement manipulation in SOEs. This study contributes to regulators, investors, and corporate governance practitioners in enhancing oversight and transparency in financial reporting.

Keywords: financial statement manipulation, earnings volatility, financial targets, political connections, Beneish M-Score

INTRODUCTION

Financial statement manipulation is one of the most critical issues in the fields of accounting and corporate governance because it can undermine the credibility of financial reporting and erode investor confidence. Financial statements should provide a fair presentation of a company's financial position and performance. Accounting standards stipulate that any form of unfair presentation may be categorized as fraud (IAI, 2023). Furthermore, regulations state that financial statement fraud involves intentionally overstating or understating material information to mislead financial statement users (OJK, 2024). From a fraud perspective, financial statement fraud constitutes a material misstatement or the intentional omission of important information to deceive financial statement users (ACFE, 2020).

Financial statement fraud is a global issue that can erode investor confidence and undermine market stability (Oktris et al., 2025). Companies often strive to present their financial condition in the best possible light, potentially leading to manipulation to maintain the appearance of performance (Fitriana & Sinarasri, 2024). According to a fraud survey by ACFE Indonesia (2025), financial statement fraud is the second-largest form of occupational fraud, accounting for 40.2% of cases, with average losses ranging from Rp1 billion to Rp50 billion. State-Owned Enterprises (SOEs) are one of the sectors most vulnerable to such practices. Table 1.1 below outlines several cases of financial statement manipulation involving SOEs:

Table 1. Cases of Financial Statement Manipulation Involving SOEs

No.	Year	Company	State Losses (Rp)	Source
1.	2012–2019	PT ASABRI Persero	Rp 22.78 Trillion	BPK RI (2021)
2.	2016–2020	PT Waskita Karya (Persero) Tbk.	Rp 2.54 Trillion	BPKP in bisnis.com (2023)
3.	2019–2020	PT Asuransi Jiwasraya	Rp16.81 Trillion	BPK RI (2020)
4.	2011–2021	PT Garuda Indonesia (Persero) Tbk.	Rp 8.8 Trillion	BPKP on kompas.tv (2022)
5.	2020–2023	PT Indofarma Tbk	Rp 371.8 billion	BPK RI (2024)

Source: Processed secondary data, 2026.

State-owned enterprises (SOEs) play a strategic role as government instruments in national economic development. SOE governance reform through the Danantara program emphasizes the importance of transparency and integrity in the management of state-owned companies (ANTARA News, 2025). However, SOEs still face challenges related to efficiency, transparency, and the quality of financial reporting (Sumasaputra et al., 2025). Several studies indicate signs of financial statement manipulation in SOEs based on the results of the Beneish M-Score (Husein et al., 2023). The Beneish M-Score model itself has proven effective as a screening tool for detecting potential financial statement manipulation (Beneish et al., 2013; Mensah et al., 2023; Fernanda & Susilo, 2025).

From a fraud theory perspective, financial statement manipulation is influenced by pressure and opportunity. This study focuses on two primary sources of pressure: earnings volatility and financial targets. Earnings volatility reflects the instability of a company's performance. Investors tend to view companies with fluctuating earnings as high-risk investment s, thereby providing management with an incentive to stabilize performance through financial statement manipulation (Tarigan & Idris, 2023). Research by Rangga & Ekadjaja (2023) indicates that high earnings volatility can increase the risk of financial statement manipulation, and Oktris et al. (2025) demonstrate that earnings volatility has a positive effect on financial statement manipulation.

Financial targets put pressure on management to achieve a certain level of profitability. Failure to meet profit targets may prompt management to manipulate financial statements so that performance appears to meet stakeholder expectations (Paramitha et al., 2022). Financial targets in this study are proxied using Return on Assets (ROA), which reflects a company's ability to generate profits (Sari et al., 2023). The findings of Fitriana & Sinarasri (2024) and Fernanda & Susilo (2025) indicate that financial targets have a positive effect on financial statement manipulation, although some other studies have found different results (Paramitha et al., 2022; Renzy et al., 2021).

In addition to pressure, opportunities to commit fraud are also a key factor. In the context of state-owned enterprises (SOEs), political connections can create such opportunities. Political connections provide easier access to funding and lower oversight risks (Auliana et al., 2025). Companies with political connections tend to have lower-quality financial reporting and higher levels of opportunistic behavior (Hartanto, 2023; Ermad et al., 2024). Previous research indicates

that political connections can act as quasi-moderators in the relationships among financial variables (Fan et al., 2007; Wahab et al., 2011; Boubakri et al., 2012; Sudirman, 2023; Damayanti, 2024).

In addition to the cases of financial statement manipulation described earlier, a study conducted by Husein et al. (2023) calculated the Beneish M-Score for 16 state-owned enterprises listed on the Indonesia Stock Exchange from 2011 to 2020; the results showed that 16 companies engaged in manipulation over a 10-year period, not consecutively during the observation years but sufficiently dominant and involving all samples. Table 2. below presents the Beneish M-Score results for SOEs listed on the IDX for the period from 2021 to 2024:

Table 2. Beneish M-Score of SOEs listed on the IDX for the period from 2021 to 2024

No.	Company Code	Beneish M-Score			
		2021	2022	2023	2024
1	ADHI	-2,681	-2,259	-1,355	-3,385
2	AGRO	-3,245	-2,838	-2,078	-2,768
3	ANTM	-2,839	-2,160	-2,927	-1,570
4	BBNI	-3,258	-2,699	-2,166	-1,997
5	BBRI	-2,543	-2,367	-2,245	-2,339
6	BBTN	-2,539	-2,812	-2,463	-2,320
7	BMRI	-2,832	-2,615	-2,130	-2,190
8	BRIS	-2,799	-2,221	-2,282	-2,234
9	ELSA	-3,018	-2,113	-3,301	-2,956
10	INAF	-2,405	-4,933	-7,270	-5,133
11	JSMR	-3,102	-2,884	-2,261	-2,390
12	KAEF	-2,026	-2,648	-3,100	-3,174
13	MTEL	-3,119	-2,744	-2,267	-2,814
14	PPRO	2,953	-1,819	-2,643	-2,278
15	PTBA	-2,429	-2,169	-1,494	-2,034
16	PTPP	-2,380	-2,379	-3,850	-4,142
17	SMBR	-3,181	-4,004	-1,660	-1,954
18	SMGR	-2,366	-2,842	-2,630	-2,657
19	TINS	-3,254	-3,478	-1,719	-3,092
20	TLKM	-3,178	-3,164	-2,949	-2,822
21	TUGU	-2,065	-0.967	-2.725	-5,020
22	WIKA	-1,929	-2,073	-2,510	-3,042
23	WSBP	-1,694	-2,615	-2,982	-3,763
24	WSKT	-2,900	-2,224	-1,752	-2,366
25	WTON	-1,584	-2,641	-1,971	-2,535

Source: Processed secondary data, 2026.

Based on Table 2, it can be concluded that out of 25 companies, 16 have a Beneish M-Score greater than −2.22, which, according to Beneish (1999), indicates a possibility of financial statement manipulation. Values less than or equal to −2.22 are categorized as not indicating manipulation.

Financial statement manipulation in this study is proxied by the Beneish M-Score model. Beneish (1999) demonstrated that the eight ratios used in this model can be derived from publicly available financial statements and are sufficiently effective for detecting potential profit manipulation. Beneish et al. (2013) confirmed that the M-Score can serve as a screening tool to

help investors avoid companies at high risk of manipulation. This model is a classic one and has been validated across various cross-country and cross-sector studies, including emerging markets such as Indonesia. Many studies indicate that the M-Score possesses strong discriminatory power in detecting manipulation compared to other models. For example, the study by Mensah et al. (2023) found that the Beneish M-Score is effective in identifying indications of financial statement fraud in public companies in Ghana ( ), as well as the study by Fernanda & Susilo (2025), which used the Beneish M-Score to examine banking companies in Indonesia.

Previous research has extensively examined the determinants of financial statement manipulation; however, studies specifically testing the interaction between financial pressure and political connections in state-owned enterprises remain limited. The novelty of this study lies in:

1. A focus on the interaction between financial pressure (profit volatility and financial targets) and political connections in explaining financial statement manipulation.
2. The provision of empirical evidence from Indonesian SOEs with high political ties.
3. The inclusion of political connections as a moderating variable that strengthens the relationship between financial pressure and financial statement manipulation.

This study aims to:

1. Test the effect of earnings volatility on financial statement manipulation.
2. Examine the effect of financial targets on financial statement manipulation.
3. Examine the role of political connections in moderating the effect of earnings volatility on financial statement manipulation.
4. Examine the role of political connections in moderating the effect of financial targets on financial statement manipulation.

The scope of this study is limited to state-owned enterprises (SOEs) and their subsidiaries in Indonesia for the period 2021–2024. The theoretical contribution of this study is to enrich the fraud literature by explaining how financial pressures interact with political power in influencing financial reporting behavior. Practically, this study provides insights for regulators, investors, and corporate governance practitioners in improving fraud prevention mechanisms in companies with political connections.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

According to Suchman (1995), legitimacy is the perception that an organization's actions align with prevailing social norms, values, and beliefs. When a gap exists between corporate values and social values (legitimacy gap), the company will take strategic steps to adjust the image or information presented to the public. In the context of financial reporting, the practice of financial statement manipulation may emerge as a management response to maintain legitimacy when actual performance fails to meet stakeholder expectations. In the context of state-owned enterprises (SOEs), legitimacy pressures are stronger because public entities are subject to government oversight, public , and regulatory scrutiny. Therefore, companies may use financial statement manipulation as an effort to maintain a performance image that aligns with external stakeholders' expectations.

Financial statements are a critical element in corporate operations. This is because financial statements provide an overview of a company's performance and contain vital economic information for decision-makers (Putra & Sinarwati, 2025). To prevent undesirable outcomes, management is responsible for presenting financial statements accurately in accordance with applicable regulations. However, over time, management is often motivated to improve the company's performance to always appear favorable in the eyes of certain parties; this is because, in the business world, all companies are in competition to advance their respective businesses (Bawekes et al., 2018, in Nurbaiti & Putri, 2023).

One factor that may prompt management to engage in such practices is the instability of the company's financial performance, as reflected in earnings volatility. Earnings volatility is a key

indicator of a company's financial health and managerial effectiveness. Constant fluctuations in earnings can erode investor confidence and signal operational inefficiencies, thereby triggering closer scrutiny from analysts and regulators. In response, managers may engage in earnings manipulation to smooth performance, which ultimately masks the true financial condition and misleads stakeholders (Oktris et al., 2025). Concurrently, earnings volatility has emerged as a key indicator of financial health and managerial performance (Chen & Zhang, 2023). An extreme increase in a company's earnings volatility raises suspicions of management manipulation aimed at embellishing the company's financial statements (Tarigan & Idris, 2023). Earnings volatility is positively associated with the likelihood of misleading financial reporting, as managers tend to engage in earnings smoothing to present the company's performance as more stable (Zhao & Wang, 2023, in Oktris et al., 2025). In legitimacy theory, high earnings volatility can threaten a company's legitimacy because it reflects performance instability, potentially prompting management to manipulate financial statements to maintain public perception (Suchman, 1995; Deegan, 2014).

Research findings by Oktris et al. (2025) demonstrate that earnings volatility has a positive effect on financial statement manipulation. These results differ from those of Arianpoor & Asali (2023), who found that earnings volatility has a negative effect on financial statement manipulation. Nevertheless, both studies confirm a correlation between earnings volatility and financial statement manipulation. As previously explained, the profit volatility variable remains under-researched; however, much of the literature mentions a correlation between the two, even if it does not explicitly examine the relationship between these variables. Differences in research results may also be influenced by the proxies used to calculate financial statement manipulation.

Based on the preceding discussion, it can be concluded that an increase in earnings volatility will be accompanied by a growing incentive for management to manipulate financial statements to appear stable and profitable, thereby increasing the company's Beneish M-Score as an early indicator of financial statement manipulation. Consequently, the following hypothesis can be formulated:

H1: Earnings volatility has a positive effect on financial statement manipulation.

Financial objectives are sometimes perceived as placing excessive pressure on company representatives to meet targets in accordance with regulations. Agents must fulfill these objectives to attract investors to the companies they manage. Based on information asymmetry, the higher a company's financial objectives are balanced with high profits to achieve those goals, the fewer instances of financial reporting manipulation management—as agents—need to undertake (Fernanda & Susilo, 2025). However, due to management's limitations in achieving these targets, management will seek ways to ensure these objectives are met. Because of these incentives and constraints, management will employ fraudulent tactics regarding the company's financial statements to deceive financial statement users and attract their interest in the company (Paramitha et al., 2024). According to legitimacy theory, financial targets achieved through high profitability levels raise stakeholders' expectations regarding the company's performance, leading the company to tend toward financial statement manipulation as a strategy to maintain legitimacy by presenting consistently high financial performance in line with the desired financial targets (Healy & Wahlen, 1999).

Research findings by Fernanda & Susilo (2025) and Fitriana & Sinarasri (2024) indicate a positive influence of this variable. This contrasts with the findings of Paramitha et al. (2022), who stated that financial targets have a negative influence, while in the study by Sari et al. (2023), financial targets were found to have no effect on financial statement manipulation.

Based on the preceding discussion, it can be concluded that the higher the financial targets—as measured by the ROA ratio—the greater the incentive for companies to engage in financial statement manipulation to achieve higher financial targets in the following year. Therefore, the following hypothesis can be formulated:

H2: Financial targets have a positive effect on financial statement manipulation.

Earnings volatility refers to the instability of a company's earnings. In other words, it reflects a company's inability to maintain earnings stability over both the short and long term (Chuang & Viriany, 2023). High earnings volatility indicates significant fluctuations in earnings over time. As earnings volatility increases, earnings information becomes more difficult to predict and harder to use as a benchmark, thereby creating difficulties for auditors in determining the reasonableness of current-period earnings information (Dichev & Tang, 2009, cited in Lestari et al., 2022). Companies with boards of directors and commissioners possessing political connections gain significant advantages and opportunities to increase their profits compared to those without such connections (Auliana et al., 2025). High earnings volatility has the potential to threaten a company's legitimacy because it reflects performance instability in the eyes of stakeholders; thus, political connections can help restore that legitimacy (Suchman, 1995). Commissioners with political connections to the ruling government have been shown to exhibit significantly higher levels of earnings management compared to similar companies without such connections (Kim & Zhang, 2016 in Pakawaru et al., 2023).

Based on the preceding discussion, it can be concluded that high earnings volatility increases the likelihood of financial statement manipulation because companies wish to appear stable in generating profits; furthermore, when a company possesses political connections, this strengthens the influence of earnings volatility on financial statement manipulation because the company finds it easier to engage in earnings smoothing. Thus, the following hypothesis can be formulated:

H3: Political connections moderate the effect of earnings volatility on financial statement manipulation.

Management will increase profits from one period to the next because investors seek to minimize investment risk and are thus more attracted to companies with stable return levels. Profitability drives individuals to take actions aimed at improving their own well-being (Setyaningsih et al., 2021). A high ROA indicates a company's effectiveness in utilizing resources to create economic value, which ultimately enables the company to meet the interests of various stakeholders (Van Horne & Wachowicz, 2009). When a company has political connections with the government or authorized officials, it may face pressure to report better financial performance. This may stem from the government's desire to create a positive impression of economic performance or to secure political support from specific companies. Companies with strong political connections may wish to ensure they meet certain financial requirements to secure government contracts or business licenses (Sudirman, 2023). In legitimacy theory, companies with political connections will strive to maintain public legitimacy and send positive signals to stakeholders to preserve a favorable public image as political actors through the achievement of corporate financial targets (Karundeng & Pesak, 2023).

Based on the preceding discussion, it can be concluded that high financial targets, as measured by return on assets, will increase financial statement manipulation because companies will strive to achieve even higher targets in the following year. Furthermore, political connections strengthen the relationship between financial targets and financial statement manipulation, as a company's political connections facilitate the achievement of these targets through various privileges resulting from the company's political proximity to the government. Thus, the following hypothesis can be formulated:

H4: Political connections moderate the effect of financial targets on financial statement manipulation.

Based on the proposed hypothesis, the research model is as follows:

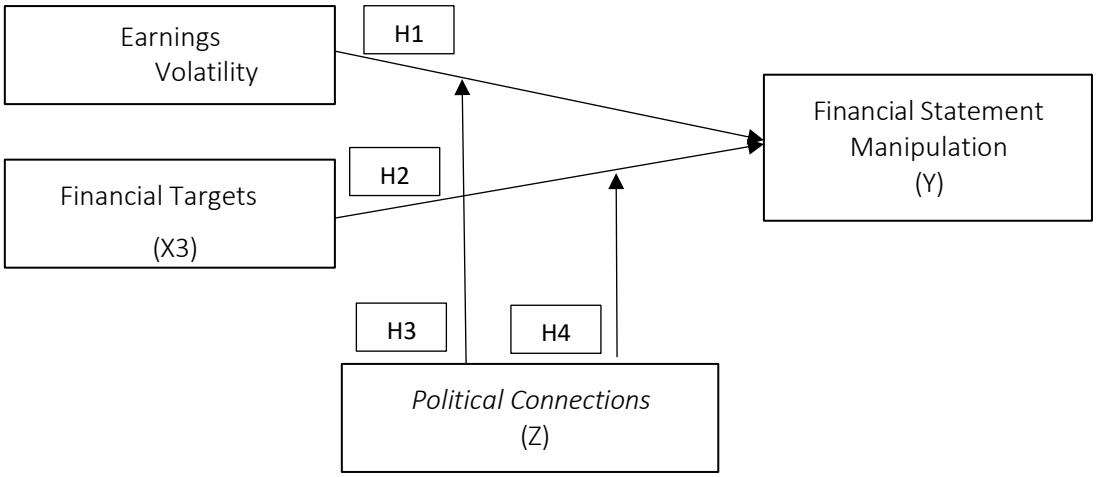


Figure 1. Research Model

RESULTS AND DISCUSSION

Research Methods

Basically, this section explains how the research was conducted. The key points of this section are: (1) research design; (2) population and sample (research targets); (3) data collection and instrument development techniques; (4) and data analysis techniques. For research that uses tools and materials, it is important to document the specifications of the tools and materials. The tool specification describes the technical capabilities of the tool used, while the material specification describes the type of material used. For qualitative research such as classroom action research, ethnography, phenomenology, case studies, etc., it is necessary to include information on the researchers, research subjects, and informants who assist in collecting research data, as well as the research location, duration, and a description of the validity checks performed on the research results.

This study is a quantitative research aimed at testing the causal relationship between earnings volatility and financial targets on financial statement manipulation, with political connections as a moderating variable. Quantitative research is research that uses numerical data or qualitative data converted into numerical form so that it can be statistically analyzed (Sugiyono, 2024).

The study population consists of all state-owned enterprises (SOEs) and their subsidiaries listed on the Indonesia Stock Exchange (IDX). The sampling technique employed is purposive sampling, which involves selecting samples based on specific criteria (Arikunto, 2019).

The research sample criteria include:

1. SOEs and SOE subsidiaries listed on the IDX during the 2021–2024 period.
2. Companies that published financial statements, consolidated financial statements, and annual reports consecutively during the study period.
3. Companies that present complete financial statements as required by the study.
4. Companies that present financial statements in Indonesian Rupiah (IDR).

Companies using the USD were excluded to maintain data homogeneity and avoid bias resulting from fluctuations in the dominant international currency (Gopinath, 2022; Ghozali, 2018).

Based on the selection process, 25 companies were identified with a 4-year observation period, resulting in a total of 100 company-year observations for the study.

This study uses secondary quantitative data obtained from financial statements, annual reports, and consolidated financial statements of state-owned enterprises (SOEs) and their subsidiaries for the 2021–2024 period. Data were obtained through the official website of the Indonesia Stock Exchange (www.idx.co.id). The data collection method employed non-participant observation, which involves collecting data through reading, note-taking, reviewing literature, and downloading relevant documents (Sugiyono, 2024).

Financial statement manipulation was measured using the Beneish M-Score (Beneish, 1999). This model uses eight financial ratios to detect potential financial statement manipulation. Companies were categorized as manipulators if the M-Score > −2.22 and as non-manipulators if the M-Score ≤ −2.22. The equation involves eight financial ratios or indices, including:

1. Days Sales Receivable Index (DSRI)

$$DSRI = \frac{(\frac{Net\ Receivables_t}{Sales_t})}{(\frac{Net\ Receivables_{t-1}}{Sales_{t-1}})} \quad \text{.....(1)}$$

2. Gross Margin Index (GMI)

$$GMI = \frac{(\frac{Gross\ Profit_{t-1}}{Sales_{t-1}})}{(\frac{Gross\ Profit_t}{Sales_t})} \quad \text{.....(2)}$$

3. Asset Quality Indeks

$$AQI = \frac{(\frac{1-Current\ Assets_t+Fixed\ Assets_t}{Total\ Asets_t})}{(\frac{1-Current\ Assets_{t-1}+Fixed\ Assets_{t-1}}{Total\ Asets_{t-1}})} \quad \text{.....(3)}$$

4. Sales Growth Index (SGI)

$$SGI = (\frac{Sales_t}{Sales_{t-1}}) \quad \text{.....(4)}$$

5. Depreciation Index (DEPI)

$$DEPI = \frac{(\frac{Depreciation_{t-1}}{Depreciation_{t-1}+Fixed\ Assets_{t-1}})}{(\frac{Depreciation_t}{Depreciation_t+Fixed\ Assets_t})} \quad \text{.....(5)}$$

6. Sales, General, and Administrative Expenses Index (SGAI)

$$SGAI = \frac{(\frac{Administrative\ Sales\ Fees_t}{Sales_t})}{(\frac{Administrative\ Sales\ Fees_{t-1}}{Sales_{t-1}})} \quad \text{.....(6)}$$

7. Total Accruals to Total Assets (TATA)

$$SGI = \frac{(\frac{Net\ Profit_t}{Total\ cash\ from\ operating\ activities_t})}{Total\ Asets_t} \quad \text{.....(7)}$$

8. Laverage Index (LVGI)

$$AQI = \frac{(\frac{Total\ Liabilities_t}{Total\ Asets_t})}{(\frac{Total\ Liabilities_{t-1}}{Total\ Asets_{t-1}})} \quad \text{.....(8)}$$

(Beneish, 1999)

Earnings volatility describes fluctuations in a company's earnings influenced by economic conditions and management's accounting policies (Scott, 2015). Measurement of earnings volatility:

$$Earnings\ Volatility = \sigma(\frac{Earnings\ before\ interest\ and\ tax}{Total\ Asset}) \quad \text{.....(9)}$$

Financial targets serve as a driving force for management to achieve the company's profit targets. This variable is proxied using Return on Assets (ROA) (Kasmir, 2019; Paramitha et al., 2022).

$$Return\ On\ Aseet = \frac{Earnings\ After\ Tx}{Total\ Asset} \times 100\%) \text{.....(10)}$$

Political connections indicate the existence of ties between company management and government officials or political figures (Niessen & Ruenzi, 2010). Measurement uses a dummy variable: 1 if the company has political connections, 0 if it does not.

Statistical analysis employs linear regression to test the first and second hypotheses. In this study, the analysis examines the dependent variable—financial statement manipulation—and the independent variables of earnings volatility and financial targets. The linear regression model testing the direct effects of independent variables on financial statement manipulation is presented as follows:

$$M - Score = a + \beta_1 VOL + \beta_2 ROA \text{ ..... (11)}$$

Notes:
M-Score = Financial statement manipulation
VOL = Profit volatility
ROA = Financial targets
a = Constant
β = Regression coefficient

The subsequent hypothesis testing uses Moderated Regression Analysis (MRA). Testing using this method is conducted to determine the role of political connections as a moderating variable. In the first stage, the interaction between the political connections variable and each independent variable is examined. In the second stage, a regression is performed on the dependent variable of financial statement manipulation. The model testing political connections as a moderating variable is modeled using the following equation:

$$M - Score = a + \beta_1 VOL + \beta_2 ROA + \beta_3 PC + \beta_4 VOLPC + \beta_5 ROAPC + e \text{....(12)}$$

Notes:
PC = Political connections
VOLPC = Interaction between earnings volatility and political connections
ROAPC = Interaction between financial targets and political connections
e = Error term

DISCUSSION

Table 3. Results of the Kolmogorov-Smirnov Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		100
Normal Parameters [a, b]	Mean	,0000000
	Standard Deviation	842.67970734
Most Extreme Differences	Absolute	,131
	Positive	,131
	Negative	-,081
Test Statistic		,131
Asympt. Sig. (2-tailed)		,000[c]
	Sig.	0.055[d]

Monte Carlo Sig. (2-tailed)	99% Confidence Interval	Lower Bound	,049
		Upper Bound	0.061

a. The test distribution is normal.

b. Calculated from the data.

c. Lilliefors Significance Correction.

d. Based on 10,000 sampled tables with a starting seed of 2,000,000.

Source: Processed secondary data, 2026.

The results of the normality test indicate that the research data meet the assumption of normality. In the table, the significance value of the Kolmogorov–Smirnov test using Monte Carlo simulation is above the 0.05 significance level, specifically 0.055; thus, it can be concluded that the residual data are normally distributed. With the normality assumption met, the regression model is deemed suitable for hypothesis testing because there is no data distribution deviation that could affect the accuracy of the model's estimates. These findings indicate that the research data possess stable characteristics and can adequately represent the population. The fulfillment of the normality assumption also indicates that the relationships among variables in the research model can be analyzed using linear regression and moderated regression analysis (MRA).

Table 4. Results of the Coefficient of Determination Test

Model Summary[b]

Model	R	R Square	Adjusted R-Square	Standard Error of the Estimate
1	,557[a]	,310	,296	851,323

a. Predictors: (Constant), ROA, Earnings_Volatility

b. Dependent Variable: FS_Manipulation

Source: Processed secondary data, 2026.

Table 5. Results of the Multiple Linear Regression Hypothesis Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-2564.697	106,151		-24,161	,000
	Earnings_Volatility	-1,692,012	1,273,092	-133	-1,329	,187
	ROA	3,510,782	745,144	,473	4,712	,000

a. Dependent Variable: FS_Manipulation

Source: Processed secondary data, 2026.

Table 5 presents the results of the multiple linear regression test to test the first and second hypotheses. Based on the test results, it is evident that earnings volatility does not affect financial statement manipulation, as the significance value is 0.187—greater than 0.05—thereby rejecting the first hypothesis stating that earnings volatility has a positive effect on financial statement manipulation. The test of the second hypothesis proves that financial targets have a positive effect on financial statement manipulation, as evidenced by the significance value of 0.000, which is less than 0.05; thus, the second hypothesis—which states that financial targets have a positive effect on financial statement manipulation—is accepted. Based on Table 4, the adjusted R^2 value of this

study is 29.6%, meaning that the financial statement manipulation variable is explained by earnings volatility and financial targets to the extent of 29.6%, while the remaining 70.4% is explained by other variables outside the scope of this study.

The results indicate that earnings volatility does not have a significant effect on financial statement manipulation. This finding suggests that earnings fluctuations in state-owned enterprises do not directly prompt management to engage in financial statement manipulation. These results are inconsistent with the studies by Oktris et al. (2025) and Tarigan and Idris (2023), which state that earnings volatility can increase the risk of financial statement manipulation. However, the results of this study align with the research by Arianpoor and Asali (2023), who found that earnings volatility does not always lead to financial statement manipulation practices.

This finding can be explained by the characteristics of SOEs, which are subject to high levels of oversight from the government, regulators, and the public. This high level of oversight may suppress management's opportunities to engage in manipulation even in the face of profit fluctuations. In the context of legitimacy theory, legitimacy pressures on SOEs may be stronger than those on private companies, leading management to exercise caution in engaging in opportunistic actions. Thus, earnings volatility is not proven to be a primary factor driving financial statement manipulation in SOEs.

The research results indicate that financial targets have a positive and significant effect on financial statement manipulation. This means that the higher a company's profitability target—proxied by ROA—the greater the tendency for the company to engage in financial statement manipulation. This finding supports the research by Fitriana and Sinarasri (2024) as well as Fernanda and Susilo (2025), who found that pressure to achieve performance targets drives management to engage in financial statement manipulation. These results are also consistent with legitimacy theory, which states that companies strive to maintain a positive performance image in the eyes of stakeholders.

Financial targets create pressure on management to maintain stable or improving performance over time. When these targets are difficult to achieve through operational e , management may resort to financial statement manipulation as a strategy to maintain legitimacy and investor confidence. These results confirm that performance pressure is one of the primary drivers of financial statement manipulation in state-owned enterprises (SOEs).

Table 6. Results of the Moderated Regression Analysis Hypothesis Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2,423.000	604,261		-4,010	,000
	Political_Connection	-144,299	613,604	-0.020	-0.235	,815
	EVxPC	-1,766,355	1,286,286	-139	-1,373	,173
	ROA x PC	3,489.103	749,235	,470	4,657	,000

a. Dependent Variable: FS_Manipulation

Source: Processed secondary data, 2026.

Table 5 presents the results of the third and fourth hypothesis tests using Moderated Regression Analysis (MRA). Based on Table 5, the third hypothesis, which states that political connections moderate the effect of earnings volatility on financial statement manipulation, was rejected. This result is evident from the significance value of 0.173, which is greater than 0.05. The test results also confirm that the fourth hypothesis, which states that political connections

moderate the effect of financial targets on financial statement manipulation, is accepted. This is evident from the significance value of 0.000, which is less than 0.05.

The MRA results indicate that political connections do not moderate the relationship between earnings volatility and financial statement manipulation. This suggests that the presence of political connections neither strengthens nor weakens the effect of earnings volatility on financial statement manipulation. These findings indicate that earnings fluctuations do not constitute the primary pressure requiring "political support" in the context of financial statement manipulation. In other words, when earnings volatility increases, companies do not automatically leverage political connections to engage in manipulation. These results differ from the studies by Fan et al. (2007), Wahab et al. (2011), and Boubakri et al. (2012), which state that political connections can reinforce opportunistic corporate behavior. This difference in results may be attributed to the characteristics of Indonesian SOEs, which operate under a system of public oversight and strict regulations, thereby limiting the use of political connections in the context of profit volatility.

The study's results indicate that political connections can amplify the influence of financial targets on financial statement manipulation. This finding suggests that companies with strong political connections are more likely to engage in financial statement manipulation when facing pressure from financial targets. These results are consistent with the research by Sudirman (2023), Damayanti (2024), and Auliana et al. (2025), which states that political connections provide various advantages such as easier access to funding, government contracts, and relatively looser oversight. These conditions can create opportunities for companies to engage in opportunistic behavior.

From a legitimacy theory perspective, firms with political connections have a greater incentive to maintain a positive performance image, as the firm's reputation is also tied to the political interests of the parties connected to the firm. This finding reinforces the argument that the interaction between performance pressure and opportunity is a combination that increases the risk of financial statement manipulation.

CONCLUSION

This study aims to examine the influence of earnings volatility and financial targets on financial statement manipulation, with political connections serving as a moderating variable, in state-owned enterprises (SOEs) and their subsidiaries during the 2021–2024 period. The results indicate that earnings volatility does not influence financial statement manipulation, whereas financial targets were found to have a positive influence on financial statement manipulation. Furthermore, political connections do not moderate the effect of earnings volatility on financial statement manipulation but do amplify the effect of financial targets on financial statement manipulation. These findings suggest that financial statement manipulation in SOEs is primarily driven by the pressure to meet high performance targets and is exacerbated by opportunities arising from political connections.

Practically, the results of this study indicate the importance of strengthening corporate oversight and governance mechanisms, particularly in companies with political connections that face high performance target pressures. Regulators and stakeholders need to enhance oversight and promote transparency in financial reporting to minimize the risk of financial statement manipulation. Theoretically, these findings reinforce the concept of the fraud triangle, which posits that the combination of pressure and opportunity is a key factor in the occurrence of financial statement manipulation.

This study has limitations regarding the sample scope, which only includes state-owned enterprises (SOEs) with a relatively short observation period, as well as the limited use of research " " variables. Therefore, future research is recommended to expand the research scope to the non-SOE sector, use a longer study period, and include additional variables such as audit quality, corporate governance, and ownership structure to provide a more comprehensive understanding of the determinants of financial statement manipulation.

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