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THE EFFECT OF PRESSURE AND ARROGANCE ON FIRM VALUE: THE MEDIATING ROLE OF FINANCIAL STATEMENT FRAUD

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Abstract
This study aims to examine the effect of pressure and arrogance on firm value, both directly and indirectly through financial statement fraud as a mediating variable in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The study employs a quantitative approach using panel data obtained from the annual reports and financial statements of 30 energy sector companies, resulting in 120 observations. Data analysis was conducted using panel data regression with the Random Effect Model (REM) and Sobel test to examine the mediating effect. The results indicate that pressure has a positive and significant effect on both firm value and financial statement fraud. Arrogance also has a positive and significant effect on firm value but does not significantly affect financial statement fraud. Furthermore, financial statement fraud is found to have a positive and significant effect on firm value. The mediation analysis reveals that financial statement fraud mediates the relationship between pressure and firm value but fails to mediate the relationship between arrogance and firm value. These findings support the Fraud Pentagon Theory, particularly the pressure element, in explaining the occurrence of financial statement fraud within the Indonesian energy sector. The study contributes to the literature by providing empirical evidence on the role of financial statement fraud as a mechanism linking managerial pressure to firm value.

Keywords: Pressure, Arrogance, Financial Statement Fraud, Firm Value, Fraud Pentagon Theory

1. Introduction

Firm value fundamentally reflects management's success in building public trust while ensuring long-term shareholder welfare (Dewantoro & Hasnawati, 2024). In the Indonesian capital market, the energy sector plays a strategic role as a pillar of the national economy and is highly sensitive to issues of transparency and financial reporting integrity. Firm value in this sector is often represented by stock prices in the market, as these prices reflect investors' collective expectations regarding business stability and future prospects (Mangantar, 2017). The higher the market valuation achieved, the greater the investors' confidence in management's ability to effectively manage limited natural resources (Osella, Alfiana, & Mulyono, 2025).

However, empirical evidence indicates serious vulnerabilities in the integrity of financial reporting within the extractive industry. Financial statement fraud has emerged as a destructive factor capable of significantly diminishing firm value within a short period. Major cases, such as stock price fluctuations experienced by PT Timah Tbk (TINS) due to transparency issues in trading activities and the challenges faced by PT Aneka Tambang Tbk (ANTM) regarding gold product integrity, demonstrate that the market imposes severe penalties for the loss of managerial honesty. When fraudulent

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practices are detected, investor confidence declines sharply, resulting in substantial reductions in market capitalization. This phenomenon confirms that financial statement fraud is not merely an ethical issue but also a critical factor that directly erodes shareholder equity value (Elviani, Ali, & Kurniawan, 2020).

The main issue addressed in this study concerns the high risk of financial statement fraud in energy companies, driven by financial performance pressure and managerial arrogance. Such manipulative practices create information asymmetry that misleads investors, causing firm value in the capital market to become artificially inflated. Consequently, when fraudulent activities are uncovered, significant market corrections occur, generating financial losses for investors while simultaneously damaging the reputation and sustainability of the national energy sector.

To date, the literature on the determinants of financial statement fraud remains inconclusive. Studies conducted by Ibrahim et al. (2024) and Elviani et al. (2020) from the Fraud Pentagon perspective confirm that economic pressure is a primary driver of fraudulent behavior. Meanwhile, Junus et al. (2025) expanded the discussion through the Fraud Hexagon perspective to examine its implications for firm value. However, findings regarding managerial arrogance remain inconsistent. Some studies report a significant effect due to the dominant position of CEOs, whereas others suggest that strong corporate governance mechanisms can mitigate the influence of arrogance. These inconsistent findings highlight the need for further investigation, particularly by positioning financial statement fraud as a mediating mechanism linking managerial behavior to firm value in the energy sector, which possesses unique risk characteristics.

Based on these issues, this study aims to empirically examine: (1) the effect of managerial pressure and arrogance on the tendency to commit financial statement fraud; (2) the direct effect of financial statement fraud on firm value; and (3) the mediating role of financial statement fraud in the relationship between pressure, arrogance, and firm value among energy companies listed on the Indonesia Stock Exchange (IDX).

The selection of Pressure and Arrogance as the main variables is motivated by the highly competitive and capital-intensive nature of the energy industry. Pressure is considered relevant because dependence on fluctuations in global commodity prices often forces management to engage in earnings management practices to maintain investor expectations. Meanwhile, Arrogance is particularly relevant because leadership positions in the extractive sector are frequently occupied by individuals with substantial authority and decision-making power. Such managerial superiority and overconfidence may lead executives to underestimate monitoring mechanisms and engage in manipulative actions to preserve their image of success.

The research gap addressed in this study lies in the limited integration of managerial psychological determinants, particularly arrogance, with real economic consequences, namely firm value, within a single comprehensive framework in the energy sector. The novelty of this study lies in its ability to explain financial statement fraud not merely as an outcome but as a mechanism through which managerial behavior influences market value. By focusing on the energy industry during the post-commodity price acceleration period, this study provides a more comprehensive understanding of information asymmetry risks that are often overlooked in conventional fundamental analyses.

Theoretically, this study is expected to contribute to the development of Agency Theory and Fraud Pentagon Theory by providing empirical evidence regarding how managerial ambitions can affect firm value. Practically, the findings offer valuable insights for investors as a qualitative assessment tool in evaluating managerial integrity before making investment decisions. For regulators such as the Financial Services Authority (OJK), the results may serve as a reference for strengthening financial reporting oversight in strategic sectors. Finally, for corporate management, the findings emphasize that reporting integrity remains a fundamental asset for maintaining corporate stability and long-term firm value.

2.1 Agency Theory

Agency Theory explains the contractual relationship between principals (shareholders) and agents (management), where the principal delegates authority to the agent to manage the company's operations (Jensen & Meckling, 1976). This relationship is susceptible to conflicts of interest due to information asymmetry, where management possesses more information about the company's condition than shareholders. In the context of firm value, management acts as an agent responsible for managing corporate resources efficiently to maximize shareholder wealth as the principal. Agency Theory suggests that information asymmetry causes investors to rely heavily on information provided by management, which can create opportunities for management to act opportunistically.

From the perspective of Agency Theory, pressure refers to the condition in which management faces demands to achieve specific financial targets. High pressure encourages management to improve company performance and profitability. Higher profitability provides a positive signal to investors regarding the company's prospects and ultimately increases firm value. However, under such conditions, management may also be motivated to manipulate financial statements to present a more favorable financial condition than actually exists. This behavior can distort investors' perceptions and affect firm valuation. Agency Theory provides a foundation for understanding how pressure and managerial behavior influence firm value, both directly and through financial statement fraud.

2.2 Fraud Pentagon Theory

Fraud Pentagon Theory was developed by Wolfe and Hermanson (2004) as an extension of the Fraud Triangle Theory initially proposed by Cressey (1953). The Fraud Pentagon Theory identifies five elements that contribute to fraudulent behavior: pressure, opportunity, rationalization, capability, and arrogance. This theory explains that fraud occurs when these five elements are present in an organization. In the context of financial statement fraud, the Fraud Pentagon Theory provides a comprehensive framework for understanding the factors that drive management to engage in fraudulent financial reporting.

Pressure is one of the primary factors driving financial statement fraud. Pressure arises when companies face demands to achieve profit targets, maintain performance, or meet investor expectations. Under such conditions, management may be motivated to manipulate financial statements to present a more favorable financial condition than actually exists. Ibrahim et al. (2024) found that pressure is a key determinant that increases the risk of financial statement fraud. Consistent with both theory and prior findings, greater pressure increases the likelihood of financial statement fraud.

Arrogance is another element of Fraud Pentagon Theory, suggesting that individuals with a strong sense of superiority tend to disregard internal control systems and believe themselves to be immune to established rules. Managers with strong political connections or substantial power may feel protected and therefore become more willing to engage in opportunistic behavior, including financial statement manipulation. According to

Howarth (2011), managerial arrogance can trigger fraudulent behavior because such individuals perceive themselves as having authority beyond corporate oversight mechanisms. Elviani et al. (2020) also found that arrogance is associated with a higher risk of financial statement fraud. Therefore, a higher level of managerial arrogance is expected to increase the likelihood of financial statement fraud.

2.3 Firm Value

Firm value reflects investors' perceptions of a company's ability to create economic value and generate future benefits. From the perspective of Agency Theory, management is responsible for managing corporate resources efficiently to maximize shareholder wealth. Firm value is often measured through market-based indicators such as Tobin's Q or Price to Book Value (PBV), which reflect market expectations regarding the company's growth prospects and long-term sustainability.

One factor that may influence firm value is pressure, which refers to the condition in which management faces demands to achieve specific financial targets. High pressure encourages management to improve company performance and profitability. Higher profitability provides a positive signal to investors regarding the company's prospects and ultimately increases firm value. Osella et al. (2025) found that strong financial performance enhances firm value because it receives a positive response from the market. Therefore, the greater the pressure faced by a company to achieve performance targets, the greater the management's effort to increase firm value.

In addition to pressure, arrogance is another factor that may influence firm value. In the Fraud Pentagon Theory, arrogance refers to a managerial attitude characterized by a sense of superiority and the belief that one possesses greater authority than the company's control mechanisms. In this study, arrogance is proxied by political connections. Companies with political connections generally have easier access to resources, strategic information, and policy support, which may enhance their competitiveness. These advantages can increase investor confidence and, consequently, improve firm value. Wulandari and Suwarno (2025) found that relationships with influential external parties can enhance market perceptions of a company. Therefore, the higher the level of arrogance reflected through political connections, the higher the firm value.

2.4 Financial Statement Fraud

Financial statement fraud refers to the deliberate misrepresentation or omission of material information in financial statements to deceive users of financial information. Financial statement fraud can influence investors' perceptions of a company's condition and future prospects. Agency Theory suggests that information asymmetry causes investors to rely heavily on information provided by management. When financial statements portray performance that is better than the company's actual condition, investors tend to assign a higher valuation to the company, thereby increasing its market value. Junus et al. (2025) found that fraudulent financial reporting is associated with changes in firm value through market reactions to disclosed information.

Financial statement fraud can occur when the elements of the Fraud Pentagon Theory are present. Pressure motivates management to manipulate financial statements in order to meet performance targets and maintain investor confidence. Arrogance, characterized by a sense of superiority and the belief that one is immune to control mechanisms, can lead management to engage in fraudulent behavior. Both pressure and arrogance can increase the likelihood of financial statement fraud, which in turn can affect firm value through market reactions to disclosed information.

2.5 Hypothesis Development

2.5.1 The Effect of Pressure on Firm Value

From the perspective of Agency Theory, management, acting as an agent, is responsible for managing corporate resources efficiently to maximize shareholder wealth as the principal. Pressure refers to the condition in which management faces demands to achieve specific financial targets. High pressure encourages management to improve company performance and profitability. Higher profitability provides a positive signal to investors regarding the company's prospects and ultimately increases firm value. Osella et al. (2025) found that strong financial performance enhances firm value because it receives a positive response from the market. Therefore, the greater the pressure faced by a company to achieve performance targets, the greater the management's effort to increase firm value. Based on this reasoning, the following hypothesis is proposed:

H1: Pressure affects firm value.

2.5.2 The Effect of Arrogance on Firm Value

In the Fraud Pentagon Theory, arrogance refers to a managerial attitude characterized by a sense of superiority and the belief that one possesses greater authority than the company's control mechanisms. In this study, arrogance is proxied by political connections. Companies with political connections generally have easier access to resources, strategic information, and policy support, which may enhance their competitiveness. These advantages can increase investor confidence and, consequently, improve firm value. Wulandari and Suwarno (2025) found that relationships with influential external parties can enhance market perceptions of a company. Therefore, the higher the level of arrogance reflected through political connections, the higher the firm value. Based on this reasoning, the following hypothesis is proposed:

H2: Arrogance affects firm value.

2.5.3 The Effect of Pressure on Financial Statement Fraud

Fraud Pentagon Theory explains that pressure is one of the primary factors driving financial statement fraud. Pressure arises when companies face demands to achieve profit targets, maintain performance, or meet investor expectations. Under such conditions, management may be motivated to manipulate financial statements to present a more favorable financial condition than actually exists. Ibrahim et al. (2024) found that pressure is a key determinant that increases the risk of financial statement fraud. Consistent with both theory and prior findings, greater pressure increases the likelihood of financial statement fraud. Based on this reasoning, the following hypothesis is proposed:

H3: Pressure affects financial statement fraud.

2.5.4 The Effect of Arrogance on Financial Statement Fraud

Arrogance is one of the elements of Fraud Pentagon Theory, suggesting that individuals with a strong sense of superiority tend to disregard internal control systems and believe themselves to be immune to established rules. Managers with strong political connections or substantial power may feel protected and therefore become more willing to engage in opportunistic behavior, including financial statement manipulation. According to Howarth (2011), managerial arrogance can trigger fraudulent behavior

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because such individuals perceive themselves as having authority beyond corporate oversight mechanisms. Elviani et al. (2020) also found that arrogance is associated with a higher risk of financial statement fraud. Therefore, a higher level of managerial arrogance is expected to increase the likelihood of financial statement fraud. Based on this reasoning, the following hypothesis is proposed:

H4: Arrogance affects financial statement fraud.

2.5.5 The Effect of Financial Statement Fraud on Firm Value

Financial statement fraud can influence investors' perceptions of a company's condition and future prospects. Agency Theory suggests that information asymmetry causes investors to rely heavily on information provided by management. When financial statements portray performance that is better than the company's actual condition, investors tend to assign a higher valuation to the company, thereby increasing its market value. Junus et al. (2025) found that fraudulent financial reporting is associated with changes in firm value through market reactions to disclosed information. Therefore, financial statement fraud is expected to influence firm value. Based on this reasoning, the following hypothesis is proposed:

H5: Financial statement fraud affects firm value.

2.5.6 The Mediating Role of Financial Statement Fraud in the Relationship between Pressure and Firm Value

Pressure faced by a company may affect firm value both directly and indirectly through financial statement fraud. According to Fraud Pentagon Theory, pressure motivates management to manipulate financial statements in order to meet performance targets and maintain investor confidence. Febriyanti (2025) found that factors associated with fraud risk can reduce investor trust and consequently affect firm value. Therefore, financial statement fraud is expected to mediate the relationship between pressure and firm value. Based on this reasoning, the following hypothesis is proposed:

H6: Pressure affects firm value through financial statement fraud as an intervening variable.

2.5.7 The Mediating Role of Financial Statement Fraud in the Relationship between Arrogance and Firm Value

Managerial arrogance may also influence firm value through financial statement fraud. Fraud Pentagon Theory suggests that managers with a high sense of superiority tend to ignore monitoring mechanisms and are more likely to engage in opportunistic behavior. Febriyanti (2025) found that CEO arrogance negatively affects firm value because it increases fraud risk and reduces investor confidence. Therefore, financial statement fraud is expected to mediate the relationship between arrogance and firm value. Based on this reasoning, the following hypothesis is proposed:

H7: Arrogance affects firm value through financial statement fraud as an intervening variable.

3. Methods

This study employs a quantitative approach to examine the causal relationships among pressure, arrogance, financial statement fraud, and firm value in energy sector companies listed on the Indonesia Stock Exchange (IDX). The study utilizes secondary data obtained from annual reports and financial statements published through the official IDX website

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and the respective companies' websites. The data used are panel data, combining both cross-sectional and time-series data. The cross-sectional data consist of 30 energy sector companies, while the time-series data cover the period from 2021 to 2024, resulting in a total of 120 observations.

The population of this study comprises all energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The sampling technique employed is purposive sampling, with the following criteria: companies must be continuously listed on the IDX throughout the observation period, publish complete annual reports and financial statements, provide the data required to measure all research variables, and not experience delisting during the study period. Based on these criteria, 30 companies were selected as research samples, namely ADRO, AKRA, APEX, BIPI, BUMA, BUMI, BYAN, DEWA, DSSA, ELSA, ENRG, GEMS, HITS, HRUM, INDY, ITMG, KKGI, MBSS, MDKA, MEDC, MYOH, PGAS, PTBA, PTRO, RAJA, RUIS, SHIP, SMMT, TOBA, and WINS.

The independent variables in this study are pressure and arrogance. Pressure is proxied by Return on Assets (ROA), which measures a company's ability to generate profit from its total assets. A lower ROA indicates greater pressure on management to improve corporate performance. Arrogance is proxied by political connections, measured using a dummy variable, where a value of 1 indicates that a company has political connections and 0 indicates otherwise. The intervening variable is financial statement fraud, measured using the Fraud Score Model (F-Score) developed by Dechow et al. (2011). Meanwhile, firm value, as the dependent variable, is proxied by Price to Book Value (PBV), which reflects the market's valuation of a company relative to its book value.

The relationships among variables are examined using two panel data regression equations. The first equation is used to analyze the effects of pressure and arrogance on financial statement fraud, while the second equation examines the effects of pressure, arrogance, and financial statement fraud on firm value. The mediating effect is tested using the Sobel Test to determine the role of financial statement fraud as an intervening variable in the relationship between pressure and arrogance and firm value.

Data analysis is conducted using EViews 12 software. The analysis begins with descriptive statistics to provide an overview of the characteristics of the research data. Subsequently, panel data regression model selection is performed using the Chow Test, Hausman Test, and Lagrange Multiplier Test to determine the most appropriate model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). After selecting the best model, model feasibility is assessed using the F-test and the coefficient of determination (R-Square). Hypothesis testing is conducted using the t-test to examine the partial effects among variables. Furthermore, indirect or mediating effects are tested using the Sobel Test at a significance level of 5 percent.

4. Results and Discussion

4.1 Descriptive Statistics

Prior to hypothesis testing, descriptive statistical analysis was conducted to provide an overview of the characteristics of the research data. Descriptive statistics include the mean, median, maximum value, minimum value, and standard deviation of each research variable. This analysis aims to identify the distribution of the data and the general condition of the variables used in this study.

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Table 1. Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
Pressure (TEK)	0.131	0.068	0.726	0.000	0.156
Arrogance (ARO)	0.725	1.000	1.000	0.000	0.448
Financial Statement Fraud (KLR)	0.162	0.092	4.341	-4.632	0.874
Firm Value (NP)	1.092	0.821	4.816	0.008	0.903

Source: Processed data (2026).

Based on Table 1, the Pressure (TEK) variable has a mean value of 0.131, with a minimum value of 0.000 and a maximum value of 0.726, indicating variation in the level of pressure experienced by the sample companies. The Arrogance (ARO) variable has a mean value of 0.725, with a minimum value of 0.000 and a maximum value of 1.000, indicating that most sample companies have political connections. The Financial Statement Fraud (KLR) variable has a mean value of 0.162, with a minimum value of -4.632 and a maximum value of 4.341, suggesting differences in the level of financial statement fraud risk among companies. Meanwhile, Firm Value (NP) has a mean value of 1.092, with a minimum value of 0.008 and a maximum value of 4.816. The standard deviations of TEK, ARO, KLR, and NP are 0.156, 0.448, 0.874, and 0.903, respectively, indicating that the data exhibit sufficient variation to represent the conditions of energy sector companies during the 2021–2024 observation period.

4.2 Panel Data Regression Model Selection

The first stage of panel data analysis is to determine the most appropriate model using the Chow Test. If the Fixed Effect Model (FEM) is preferred over the Common Effect Model (CEM), the Hausman Test is subsequently conducted. Conversely, if the CEM is preferred, the Lagrange Multiplier Test is performed.

Table 2. Panel Data Regression Model Selection

Test	Statistical Value	Conclusion
Chow Test	Cross-section Chi-square = 0.000 < 0.05	FEM
Hausman Test	Cross-section random = 0.0722 > 0.05	REM

Description: This table presents the results of panel data regression model selection using the Chow Test and Hausman Test. The Chow Test indicates that the Fixed Effect Model (FEM) is superior to the Common Effect Model (CEM), while the Hausman Test indicates that the Random Effect Model (REM) is superior to the Fixed Effect Model (FEM). Therefore, the Random Effect Model (REM) was selected as the most appropriate model for this study.

Source: Processed data (2026).

Based on Table 2, the Chow Test results show a Cross-section Chi-square probability value of 0.0000, which is lower than 0.05, indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). Furthermore, the Hausman Test yields a probability value of 0.0722, which is greater than 0.05, indicating that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM). Therefore, the Random Effect Model (REM) was selected for this study. Since REM was chosen as the final model, classical assumption tests were not required and were assumed to have been satisfied.

4.3 Model Fit Test

Before hypothesis testing, a model fit test was conducted to determine whether the panel data regression model was appropriate for explaining the relationships among pressure, arrogance, financial statement fraud, and firm value. Model fit was evaluated using the F-test and the coefficient of determination.

Table 3. Model Fit Test Results

Test	Statistical Value	p-value	Conclusion
F-test	F = 223344	0.0000 < 0,05	Significant
Coefficient if Determination	R-Square = 0.3661		

Source: Processed data (2026).

Based on Table 3, the F-test result shows an F-statistic value of 22.33440 with a probability value of 0.0000. Since the probability value is less than 0.05, the regression model is considered fit, indicating that pressure, arrogance, and financial statement fraud simultaneously influence firm value.

The R-Squared value of 0.349738 indicates that 34.97% of the variation in firm value can be explained by pressure, arrogance, and financial statement fraud, while the remaining 65.03% is explained by other variables outside the research model.

4.4 Hypothesis Testing

Table 4. Hypothesis Testing Results

Hypothesis	Path	p-value	Significance
H1	TEK → NP	0.0000	Significant
H2	ARO → NP	0.0000	Significant
H3	TEK → KLR	0.0018	Significant
H4	ARO → KLR	0.1676	Not Significant
H5	KLR → NP	0.0001	Significant
H6	TEK → KLR → NP	0.0096	Significant
H7	ARO → KLR → NP	0.1742	Not Significant

Source: Processed data (2026).

4.5 Discussion

The results indicate that pressure has a positive and significant effect on firm value (H1) and financial statement fraud (H3). These findings suggest that the greater the pressure faced by a company to achieve financial targets, the stronger the management's incentive to improve performance and engage in actions that may affect the quality of financial reporting. From the perspective of Fraud Pentagon Theory, pressure is one of the primary drivers of fraudulent behavior because management seeks to meet performance expectations and maintain the company's image in the eyes of investors. Pressure, as reflected by the company's ability to generate profits, also provides a positive signal to investors, which ultimately increases firm value. These findings are consistent with the studies of Ibrahim et al. (2024) and Elviani et al. (2020), which found that pressure significantly influences the occurrence of financial statement fraud.

The findings also reveal that arrogance has a positive and significant effect on firm value (H2), but does not have a significant effect on financial statement fraud (H4). This result indicates that political connections owned by companies can enhance investor confidence by providing broader access to resources, strategic information, and policy support, thereby increasing firm value. However, political connections do not necessarily encourage financial statement fraud. This condition suggests that energy sector companies are subject to relatively strict supervision from regulators, external auditors, and institutional investors, reducing opportunities for financial reporting manipulation. Therefore, while political connections contribute positively to firm value, they do not directly increase the likelihood of fraud. This finding is not entirely consistent with Fraud Pentagon Theory, which posits that arrogance may trigger fraudulent behavior, but it supports the findings of Utami and Taqwa (2023), who reported that corporate governance mechanisms can weaken the influence of managerial characteristics on fraudulent actions.

Furthermore, financial statement fraud is found to have a positive and significant effect on firm value (H5). This finding indicates that financial information presented more favorably than the company's actual condition can improve market perceptions of company performance and prospects, thereby increasing firm value in the short term. According to Agency Theory, information asymmetry between management and investors causes investors to rely heavily on information disclosed by management when making investment decisions. Consequently, manipulated financial reports may create a positive market response and temporarily enhance firm value. Nevertheless, such increases are generally unsustainable and may lead to substantial declines in firm value once the fraudulent practices are exposed. This result supports the findings of Junus et al. (2025), who demonstrated that fraudulent financial reporting has implications for changes in firm value.

The mediation analysis shows that financial statement fraud successfully mediates the relationship between pressure and firm value (H6). This finding implies that pressure not only affects firm value directly but also indirectly by increasing the likelihood of financial statement fraud, which subsequently influences firm value. Fraud Pentagon Theory explains that pressure can motivate management to manipulate financial reports in order to achieve financial targets and maintain investor confidence. These findings are consistent with Febriyanti (2025), who found that factors associated with fraud risk can affect investor trust and ultimately influence firm value. Therefore, financial statement fraud acts as an intervening mechanism linking pressure to firm value.

In contrast, financial statement fraud does not mediate the relationship between arrogance and firm value (H7). This result occurs because arrogance does not significantly affect financial statement fraud, preventing the formation of an indirect effect. The finding suggests that the influence of arrogance on firm value is more direct rather than operating through fraudulent financial reporting. Although this result does not support the arrogance dimension of Fraud Pentagon Theory, it indicates that political connections, used as a proxy for arrogance, contribute more to enhancing corporate reputation and access to resources than to encouraging fraudulent behavior. Consequently, financial statement fraud does not function as an intervening variable in the relationship between arrogance and firm value.

5. Conclusion

This study examines the influence of pressure and arrogance on firm value with financial statement fraud as a mediating variable. Based on Agency Theory and Fraud Pentagon Theory, this study analyzes how pressure and arrogance affect firm value both directly and indirectly through financial statement fraud.

The results indicate that pressure has a positive and significant effect on firm value, suggesting that higher pressure encourages management to improve company performance and profitability, which provides a positive signal to investors and ultimately

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increases firm value. This finding is consistent with Agency Theory, which states that management, acting as an agent, is responsible for managing corporate resources efficiently to maximize shareholder wealth. Additionally, pressure has a positive and significant effect on financial statement fraud, indicating that greater pressure increases the likelihood of financial statement fraud. This finding supports Fraud Pentagon Theory, which explains that pressure is one of the primary factors driving fraudulent behavior.

Arrogance has a positive and significant effect on firm value, suggesting that companies with political connections have easier access to resources, strategic information, and policy support, which may enhance their competitiveness and increase investor confidence. However, arrogance does not significantly affect financial statement fraud, indicating that managerial arrogance reflected through political connections does not necessarily increase the likelihood of financial statement fraud in this sample. This finding suggests that while arrogance may influence firm value through enhanced competitiveness and investor confidence, it may not directly translate into fraudulent financial reporting behavior.

Financial statement fraud has a positive and significant effect on firm value, indicating that when financial statements portray performance that is better than the company's actual condition, investors tend to assign a higher valuation to the company, thereby increasing its market value. This finding is consistent with Agency Theory, which suggests that information asymmetry causes investors to rely heavily on information provided by management, potentially leading to mispricing when financial statements are manipulated.

The mediation analysis reveals that financial statement fraud mediates the effect of pressure on firm value, indicating that pressure influences firm value both directly and indirectly through financial statement fraud. However, financial statement fraud does not mediate the effect of arrogance on firm value, suggesting that the relationship between arrogance and firm value operates through direct mechanisms such as enhanced competitiveness and investor confidence rather than through financial statement manipulation.

The theoretical implications of this study contribute to the application of Agency Theory and Fraud Pentagon Theory in the context of firm value and financial statement fraud. The findings support the proposition that pressure influences firm value both directly and indirectly through financial statement fraud, validating the theoretical predictions of Fraud Pentagon Theory. However, the non-significant relationship between arrogance and financial statement fraud suggests that the arrogance element of the Fraud Pentagon Theory may operate differently in the context of firm value, particularly when arrogance is proxied by political connections.

From a practical perspective, companies should strengthen corporate governance mechanisms and internal control systems to minimize the risk of financial statement fraud. For investors, the findings may serve as an additional consideration in evaluating the quality and credibility of corporate financial reporting. For regulators, the results provide useful insights for enhancing oversight and monitoring of financial reporting quality, particularly within the energy sector.

This study has several limitations that should be acknowledged. First, it relies on secondary data obtained from corporate financial reports, making the findings dependent on the completeness and quality of information disclosed by each company. Second, the study applies the relatively recent Fraud Pentagon Theory and incorporates financial statement fraud as a mediating variable, resulting in a non-significant relationship between arrogance and financial statement fraud. Third, the study focuses on a specific industrial sector, which may limit the generalizability of the findings to other sectors.

Future research should combine primary and secondary data sources to obtain more comprehensive and reliable findings. Researchers should expand the research scope to other industrial sectors to test the generalizability of the findings and to identify sector-specific patterns. Future studies should also explore alternative proxies for arrogance beyond political connections, such as CEO narcissism, overconfidence, or other behavioral indicators that may better capture the essence of managerial arrogance. Additionally, future research could examine other elements of the Fraud Pentagon Theory, such as opportunity, rationalization, and capability, to provide a more comprehensive understanding of financial statement fraud. Longitudinal research designs are needed to examine how the relationships between pressure, arrogance, financial statement fraud, and firm value evolve over time. Finally, future research could employ qualitative approaches such as case studies or interviews with corporate managers to provide richer insights into the mechanisms through which pressure and arrogance influence firm value and financial reporting behavior.

In conclusion, this study contributes to the literature on firm value and financial statement fraud by examining the influence of pressure and arrogance through the lens of Agency Theory and Fraud Pentagon Theory. The findings suggest that pressure influences firm value both directly and through financial statement fraud, while arrogance influences firm value directly without mediation through financial statement fraud. As corporate governance and financial reporting quality continue to receive increasing attention from investors and regulators, understanding the mechanisms through which managerial behavior influences firm value becomes increasingly important for promoting transparency and accountability in corporate reporting.

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