CEO Power and Firm Value: Do Earnings Management Practices Matter?

NUR KHOLIS, IMAM GHOZALI, PUJI HARTO
Department of Accounting, Faculty of Economics and Business
Diponegoro University
Semarang
INDONESIA

Abstract: The purpose of this study is to examine the role of earnings management in mediating the relationship between CEO power and firm value. This study uses a quantitative approach, with the data population consisting of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018-2023. Data analysis in this study employs the Structural Equation Model (SEM) approach with the Partial Least Square (PLS) method using WarpPLS 8.0 software. The study's findings and hypothesis testing reveal that CEO power has a negative effect on firm value. The results also show empirical evidence that CEO power has a positive effect on earnings management. Furthermore, the results indicate that earnings management acts as a mediator that strengthens the relationship between the CEO and firm value.

Key-Words: Expert Power, Ownership Power, Prestige Power, Earnings Management, Firm Value, Agency Theory, Structural Equation Model (SEM)

Received: March 22, 2025. Revised: June 24, 2025. Accepted: July 26, 2025. Published: March 18, 2026.

1 Introduction

Financial statements are a means of information used by management to account for the resources managed by the company. Financial statements enable stakeholders to ascertain the development and current condition of the company [1]. They have great benefits for their users, and one element in the financial statement that is highly considered is profit information. Profit information is very important for users of financial statements, as it serves as a guideline for prospective investors in determining their investment decisions [2].

Law Number 40 of 2007 on Limited Liability Companies stipulates that the person who is authorized and fully responsible for the management and administration of a company is the Board of Directors. The main director holds the highest position on the Board of Directors. The authority or duties of the company's Board of Directors adopt a collegial system, where each member of the board has the authority to represent the company. However, the internal division of tasks among the members of the board of directors does not apply (bind) externally on third parties.

A Chief Executive Officer (CEO) holds significant influence over a company's performance and business strategy. On the one hand, a powerful CEO offers advantages by reducing conflict, building trust among directors, and clearly defining decision-making processes [3]. Conversely, weakening the CEO's power can incur costs for the company by reducing its ability to perform well [4].

Four sources of power or authority owned by individuals from the top management team, according to [5], are structural power, ownership power, expert power, and prestige power. Structural and ownership power represent formal forms of power that can directly influence the CEO's decision-making process. Meanwhile, expert and prestige power are informal forms of power that exert indirect influence on the CEO's hierarchical role in the organization. Specifically, structural power that uses a dual leadership proxy is not included in this study because Indonesia adopts a two-tier system, which entails separate management functions and supervisory functions.

Earnings management practices are carried out through the selection of accounting policies to achieve certain goals, one of which is increasing the company's market value [6]. The company's value appears favorable to investors, and they become more interested in investing in the company. Under Agency Theory, company management as an agent for stakeholders has a responsibility to maximize the stakeholders' welfare. Company management possesses extensive information concerning the company's overall capacity and work environment. [7] states that the information owned by managers tends to be used for their own interests. However, [8], [9] state that managers will use their abilities to achieve organizational performance for the benefit of stakeholders.

Earnings management is the practice of selecting accounting policies by managers to improve the profits reported in the company's financial statements, [10]. This practice aims to show better company performance. Managers are often motivated to carry out earnings management because of the awareness of the importance of earnings information for shareholders. The perspective of opportunistic behavior in earnings management suggests that managers use information asymmetry between external and internal parties to enhance their utility, particularly concerning debt contracts, compensation contracts, and regulations. Consequently, managers often manipulate unreliable data.

Several studies have discussed the relationship between CEO Power and firm value, including those by [11], [12], [13], [14], [15], [16], [17]. Research by [13] found that CEO tenure, CEO experience, and CEO political connections have a positive effect on firm value. This highlights the significance of CEO power as a crucial factor in determining company performance, especially in the context of high retrenchment activity. To ensure optimal effectiveness in their organizations, companies must leverage and utilize the level of CEO power. In line with the study conducted by, [17], CEO characteristics, namely CEO age, CEO tenure, and CEO political connections, positively and significantly affect firm value.

Other studies that discuss the relationship between CEO power and earnings management have also been conducted by several researchers, such as, [3], [18], [19], [20], [21]. Studies, [18] and, [21] show that CEO experience, CEO tenure, and CEO political connections increase the existence of real earnings management practices in non-financial companies in Jordan. Meanwhile, CEO duality limits real earnings management practices in Jordanian non-financial companies. Internal control reduces and limits real earnings management practices when interacting with CEO experience, CEO tenure, and CEO political connections, because all three interactions have a significant and negative relationship with real earnings management. Therefore, the expected advantages of CEO characteristics in reducing real earnings management are more prominent with the presence of ownership concentration.

This research is relevant as it develops prior studies in several aspects. First, in its modeling, this study utilizes the variable of accrual earnings management to mediate the relationship between CEO power and firm value. CEOs have a central role in strategic decision-making processes that can lead to contract efficiency and opportunistic behavior. This phenomenon is an actual issue in corporate governance, especially in the context of developing countries that are still in the process of strengthening corporate governance. Second, the limited empirical studies on the topic of CEO power make this topic relevant. Specifically, in the Indonesian context, with high ownership concentration and a very dominant family role and weak investor protection, the issue of CEO power is even more important.

The results of this study contribute to the development of theory, especially the understanding of agency theory. This study confirms that CEO power does not always have a direct positive effect on the value of the company, but rather operates through earnings management practices. The results of this study strengthen the view that managerial behavior is an important mechanism in shaping market perceptions of the company. By integrating mediating variables, this study enriches the conceptual model in explaining the dynamics of the relationship between CEO power and Firm value.

2 Literature Review

Agency Theory posits that each individual is motivated by self-interest, which frequently causes conflict between the principal and the agent. In the context of ownership concentration, this dynamic can lead to the risk of minority shareholders' expropriation. Expropriation is the process of using control rights to maximize one's own welfare through the distribution of wealth from other parties, [22]. Furthermore, [10] indicated that the relationship results in two problems: the occurrence of asymmetric information and the occurrence of conflict of interest stemming from a disparity in goals.

Four sources of power or authority owned by individuals from the top management team, according to, [5] namely structural power, ownership power, expert power, and prestige power. Structural and ownership power represent formal forms of power that can directly influence the CEO's decision-making process, [23]. Meanwhile, expert and prestige power are informal forms of power that exert indirect influence on the CEO's hierarchical role in the organization.

2.1 Hypothesis Development

Corporate leaders have responsibility for the organization as a whole, [24]. According to this theory, the individual character of a manager can influence the decision-making process. A broader view of this theory is that managers act on their own interpretation of the situation they face. This personal interpretation comes from the manager's experiences, values, and personality, [25].

Managers need to have the power to support their role in carrying out their responsibilities as managers. Managerial power can be referred to as the power possessed by managers to face challenges and make decisions in achieving company goals. Managerial performance can also contribute to increasing profits and firm value, [26], [27].

Research by [13] found that CEO tenure, CEO experience, and CEO political connections have a positive effect on firm value. This highlights CEO power as a crucial factor in determining company performance, especially in the context of high retrenchment activity. To ensure optimal effectiveness in their organizations, companies must leverage and utilize the level of CEO power. In line with research by [17], CEO characteristics, namely CEO age, CEO tenure, and CEO political connections, have a positive and significant relationship to firm value. So the hypothesis proposed in this study is as follows:

H1: CEO Power has a positive effect on firm value.

Agency problems arise due to different interests between controlling shareholders and non-controlling shareholders, a concept rooted in agency theory. Each party wants to maximize its interests, which causes controlling shareholders to behave opportunistically, namely, maximizing the value of all shareholders, so that company policies taken by controlling shareholders can lead to explorative decision-making, namely, earnings management practices.

Based on research by [18], [28] shows that CEO experience, CEO tenure, and CEO political connections lead to an increase in real earnings management practices in non-financial companies in Jordan. Meanwhile, CEO duality limits real earnings management practices in Jordanian non-financial companies. In line with research by [19] it shows that CEO duality, CEO nationality, and the quality of financial communication positively influence accrual earnings management practices. The results obtained in the research process encourage the implementation of good governance behavior rules in limiting the opportunistic behavior of managers. So the hypothesis proposed in this study is as follows:

H2: CEO Power has a positive effect on accrual earnings management.

The perspective of opportunistic behavior in earnings management suggests that managers use information asymmetry between external and internal parties to enhance their utility, concerning debt contracts, compensation contracts, and regulations. Consequently, managers often manipulate unreliable data. [29], The first opportunistic approach was used to explain discretionary behavior on reported earnings to influence contractual outcomes and affect welfare transfers. More capable managers can generate higher profits with a given level of resources or, conversely, minimize the resources used to obtain a given level of income. CEO turnover is always associated with subsequent corporate improvement.

In such conditions, efforts to achieve self-interest may also be formed strongly, and the interests of this controlling shareholder group will cause a conflict of interest between majority shareholders and minority shareholders, [30]. This difference in interests allows controlling shareholders to take action through profit management practice policies made by management, resulting in profit information being biased and inaccurate in predicting future profits. So the hypothesis proposed in this study is as follows:

H3: Earnings management mediates the relationship between CEO Power and firm value.

3 Method

3.1. Population and Sample

Employing a quantitative approach, this study analyzes financial statements on the Indonesia Stock Exchange (IDX) in 2018-2023. The object of this study is a manufacturing company with complete financial information that operated during the period 2018-2023. A purposive sampling technique was employed with the criteria: 1) The companies used as samples are companies in the manufacturing industry type. 2) The company publishes a complete annual report from 2018 to 2023, which is the observation period in this study. 3) Companies that present financial statements using the rupiah currency unit in the period 2018-2023. 4) Companies that publish financial statements ending at the end of December.

Data analysis in this study uses the Structural Equation Model (SEM) approach with the Partial Least Square (PLS) method. Using WarpPLS 8.0 software. Partial Least Squares (PLS) is one method for implementing a structural equation model. The reason for using SEM-PLS is that the measurement of the CEO power variable uses three formative indicators, [31], [32].

3.2. Operating Definition of Variables

In this study, the dependent variable is Firm Value (Y). It is measured using Tobin Q to gauge the financial market's valuation (market price) based on what investors are willing to pay. The independent variable, CEO Power, uses 3 formative measurement indicators, namely Expert Power (CEO tenure), Ownership Power (CEO Ownership), and Prestige Power (CEO Interlock). This study also introduces a mediating variable, namely Earnings Management (Z), measured using discretionary accruals. This approach is justified because the characteristics of this industry involve many estimated and subjective-based accounts (inventory, receivable, and depreciation), which provide managers with high flexibility in managing earnings without having to change real cash flows. Finally, the control variables are incorporated in this study. They are Company Size measured using Ln total assets, Company Type measured using High-Low company profile, Independent Audit Committee measured using the number of independent audit committee members to all audit committee members, and Leverage measured using total liabilities to total equity. Variable measurements and operational definitions of variables are presented in Table 1 (Appendix).

4 Research Result

Before conducting hypothesis testing, a descriptive analysis is first conducted to describe the research data presented in a table. 2. Firm value as a dependent variable in this study. The minimum value is -34.15923 with a maximum value of 299.14238, with an average value of 5.52811 and a standard deviation of 14.67761. Expert power is one of the indicators in the CEO power variable. The minimum value is 0, with a maximum value of 52 owned by Ultra Jaya Milk Industry and Trading Company. Tbk with an average value of 9.13 and a standard deviation of 11.692. Ownership Power is one of the indicators in the CEO Power variable. The minimum value is 0, with a maximum value of 0.8125, owned by Sariguna Primatirta. Tbk with an average value of 0.03626 and a standard deviation of 0.10912. Prestige Power is one of the indicators in the CEO power variable. The minimum value is 0, the maximum value is 45, owned by Sariguna Primatirta. Tbk with an average value of 2.65 and a standard deviation of 5.307. Earning Management as a mediating variable. The minimum value is -1083.77162 with a maximum value of 8.61162, with an average value of -6.20389 and a standard deviation of 66.9082. The explanation above can be shown in Table 2.

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standart Deviation
NP	-34.15923	299.14238	5.52811	14.67761
EP	0	52	9.13	11.692
OP	0	0.8125	0.03626	0.10912
PP	0	45	2.65	5.307
EM	-1083.77162	8.61162	-6.20389	66.90821
size	24.544	35.125	28.62148	1.69186
Tipe	0	1	0.76	0.427
KAI	0.250	1	0.50917	0.09762
Lev	-30.1534	23.9173	1.19272	2.82661

Source: WarpPLS output processed

Note: NP= Firm value; EP= Expert Power; OP= Ownership Power; PP = Prestige Power; EM = Earnings Management; Size = Company Size; Type; Company Type; KAI = Independent Audit Committee; Lev = Leverage.

To determine the formative measurement model's feasibility for the CEO power variable. The formative measurement model is declared feasible if the weight indicator is significant (p-value <0.01) and there is no multicollinearity (VIF <3.3), [32]. The CEO power variable in this study uses 3 formative measurement indicators, namely: EP, OP, and PP. Based on the results of the model output Table 3 (Appendix), it can be seen that the CEO power variable has an acceptable measurement. With significant weight values for EP, OP, and PP having P values <0.01 and VIF values for each indicator <3.3.

This study's structural model was evaluated by examining the Adjusted R-squared value (for variance explained), Goodness of Fit model, and q2 Predictive, effect size, and full Collinearity VIF, and the significance value of the path coefficient. Based on the results of the model fit output Table 4 (Appendix), it shows that all indicators align with the rule of thumb criteria, confirming the model has a good fit [31], [32].

After evaluating the measurements and model fit, the next step is to analyze the results of the hypothesis testing based on the results of the Partial Least Squares- Structural Equation Modeling (PLS-SEM) estimation.

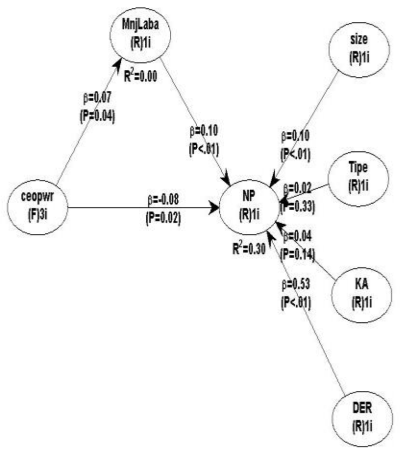

Fig. 1. Partial Least Squares (PLS) Test Results
Source: WarpPLS output processed

Figure 1, illustrates the PLS-SEM test results, which show the structural relationship between the research variable along with the path coefficient value, t-statistic value, and p-value as the basis for hypothesis testing. Based on this estimation, the corresponding hypothesis testing outcomes are detailed in Table 5 (Appendix).

As shown in Table 4 (Appendix), the hypothesis test confirms that CEO power negatively affects firm value (path coefficient = -0.084; significance level = 5%). The test results thus do not support H1, which hypothesized a positive impact of CEO power on firm value. Conversely, the results indicate that CEO power positively influences earnings management, with a path coefficient of 0.070 and a significance level of 5%. The results of this test support H2. The results in Table 4 (Appendix) also show that earnings management is able to mediate the relationship between CEO power and firm value. The results of the PLS-SEM test show a path coefficient of 0.013 and a significance level of 5%. This test's findings support H3.

In PLS-SEM testing, control variables are also used to control and restrain the influence of other variables from outside the independent variables being studied. This study uses the variables Size, Company Type, Audit Committee, and Leverage with the results of the PLS-SEM test, respectively (0.096), (0.017), (0.042), and (0.531).

5 Discussion

The PLS-SEM analysis reveals that CEO power has a negative effect on the firm value. This suggests that an increase in CEO authority leads to a decrease in Company valuation, and vice versa; the smaller the power of the CEO, the greater the firm value. The first hypothesis of this study aligns with agency theory. When the CEO's power is too great and very dominant, the monitoring mechanism tends to be weak and tends to act in personal interests, no longer in the interests of shareholders, which creates a conflict of interest and increases investment risks that impact the performance and firm value. These results support the research of, [12], [14], which explains that CEO power has a negative effect on the firm value. However, they stand in contrast to studies by [11], [13], [17], which revealed that CEO Power has a positive and significant relationship with Company value.

Other results show that CEO power has a positive effect on earnings management, meaning that the greater the CEO power, the higher the likelihood of the CEO engaging in earnings management practices, and vice versa; the smaller the CEO power, the less likely the CEO is to engage in earnings management practices. The results of this study are in line with, [18] and [19]. CEOs with great power tend to have weak monitoring mechanisms and create more opportunities for them to engage in earnings management practices. This indicates that strict supervision is needed to maintain the integrity of the financial statements of companies led by strong CEO power.

The relationship between CEO power and firm value is strengthened by earnings management, which acts as a mediator. Earnings management practices allow CEOs to beautify financial reports in improving investor perceptions of Company performance, thus having a positive impact on firm value, although this impact is short-term and apparent. Theoretically, these results are in line with agency theory; CEOs with high levels of power tend to have the power to make strategic decisions, including in managing financial reports.

High CEO power provides great authority and influence in decision-making without much hindrance from external parties, such as the board of commissioners or minority shareholders, [37]. This condition opens up opportunities for CEOs to practice earnings management, namely the management of accounting figures to provide a more profitable performance picture to the public and investors.

Earnings management practices can increase the market's positive perception of the Company's financial condition, although in reality, it does not always reflect the actual economic performance. The increase in market perception has an impact on the increase in the Company's value. Thus, this finding shows that CEO power does not directly impact the increase in the firm value, but through earnings management practices, the influence becomes significant. This means that earnings management acts as a strategic mechanism used by the CEO to strengthen the Company's image and reputation with the public and investors.

6 Conclusion

The purpose of this study is to examine the role of earnings management in mediating the relationship between CEO power and firm value. It can be concluded from the study and hypothesis testing that CEO power adversely affects firm value. This evidence confirms that the greater the CEO's power, the lower the firm's value. When the CEO's power is too great and very dominant, the monitoring mechanism tends to be weak and tends to act in personal interests, no longer in the interests of shareholders, which creates a conflict of interest and increases investment risks that impact the company's performance and value. The results of this study also show empirical evidence that CEO power has a positive effect on earnings management. CEOs who have great power tend to have weak monitoring mechanisms and have many opportunities to practice earnings management. And the results of earnings management act as a mediator that strengthens the relationship between the CEO and the firm's value. The practice of earnings management allows CEOs to beautify financial reports in improving investor perceptions of the company's performance, thus having a positive impact on the firm's value.

The limitations of this study include. First, the research sample is confined exclusively to Indonesian companies. Second, the data coverage is limited to companies listed on the Indonesia Stock Exchange, so the results may not be fully generalized to non-public companies or across countries. Lastly, the scope is limited to the role of the CEO and does not integrate non-financial factors, such as organizational culture. Further research is suggested to expand the geographical coverage and industry sectors to produce more comprehensive and general findings, and add other variables such as organizational culture and external pressures that have a role in influencing the relationship between CEO power and firm value.

These findings have important implications for policymakers, regulators, and stakeholders. Specifically, the finding of the mediating role of earnings management in the relationship between CEO power and firm value indicates that the implementation of strong corporate governance, effective oversight mechanisms, and ethics-based managerial policies is vital. These components are key to maintaining a balance between executive power and shareholder interests in order to enhance the company's performance and value in a sustainable manner.

Acknowledgement:
This research was supported by the Indonesian Education Scholarship, Center for Higher Education Funding and Assessment, Ministry of Higher Education, Science, and Technology of the Republic of Indonesia, and Endowment Fund for Education Agency, Ministry of Finance of the Republic of Indonesia.

References:

[1] S. K. Ganguli, “Capital Structure - Does Ownership Structure Matter? Theory And Indian Evidence,” *Studies In Economics And Finance*, Vol. 30, No. 1, Pp. 56–72, Mar. 2013, Doi: 10.1108/10867371311300982.

[2] M. N. Islam, S. Li, And C. M. Wheatley, “Accounting Comparability And Financial Distress,” *Review Of Accounting And Finance*, Vol. 22, No. 3, Pp. 353–373, Jun. 2023, Doi: 10.1108/RAF-07-2022-0207.

[3] S. R. Shiah-Hou, “Powerful Ceos And Earnings Quality,” *Managerial Finance*, Vol. 47, No. 12, Pp. 1714–1735, Oct. 2021, Doi: 10.1108/MF-07-2020-0363.

[4] H. I. Ting, H. Chueh, And P. R. Chang, “CEO Power And Its Effect On Performance And

Governance: Evidence From Chinese Banks," *Emerging Markets Review*, Vol. 33, Pp. 42–61, Dec. 2017, Doi: 10.1016/J.Ememar.2017.09.005.

[5] S. Finkelstein, "Power In Top Management Teams: Dimensions, Measurement, And Validation," 1992. [Online]. Available: Https://About.Jstor.Org/Terms

[6] W. R. Scott, *Financial Accounting Theory*, Edition 4. 2009.

[7] M. C. Jensen And W. H. Meckling, "Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure," Q North-Holland Publishing Company, 1976.

[8] P. M. Dechow, R. G. Sloan, And A. P. Sweeney, "Detecting Earnings Management," 1995.

[9] S. Roychowdhury, "Earnings Management Through Real Activities Manipulation," *Journal Of Accounting And Economics*, Vol. 42, No. 3, Pp. 335–370, Dec. 2006, Doi: 10.1016/J.Jacceco.2006.01.002.

[10] T. T. H. Nguyen, S. Ibrahim, And G. Giannopoulos, "Detecting Earnings Management: A Comparison Of Accrual And Real Earnings Manipulation Models," *Journal Of Applied Accounting Research*, Vol. 24, No. 2, Pp. 344–379, Mar. 2023, Doi: 10.1108/JAAR-08-2021-0217.

[11] R. K. Brahmana, H. W. You, And X. R. Yong, "Divestiture Strategy, CEO Power And Firm Performance," *Management Research Review*, Vol. 44, No. 3, Pp. 418–436, Mar. 2021, Doi: 10.1108/MRR-04-2020-0196.

[12] A. M. Chijoke-Mgbame, A. Boateng, C. O. Mgbame, And K. C. Yekini, "Firm Performance And CEO Turnover: The Moderating Role Of CEO Attributes," *Corporate Governance (Bingley)*, Vol. 23, No. 7, Pp. 1778–1801, Nov. 2023, Doi: 10.1108/CG-04-2022-0190.

[13] M. Ijaz, N. Sadiq, And S. F. Abbas, "Strategic Turnaround: Unraveling The Impact Of CEO Power On Firm Performance During Retrenchment," *International Journal Of Law And Management*, 2024, Doi: 10.1108/IJLMA-01-2024-0010.

[14] R. Kaur And B. Singh, "Do CEO Characteristics Explain Firm Performance In India?," *Journal Of Strategy And Management*, Vol. 12, No. 3, Pp. 409–426, Aug. 2019, Doi: 10.1108/JSMA-02-2019-0027.

[15] F. Li, T. Li, And D. Minor, "CEO Power, Corporate Social Responsibility, And Firm Value: A Test Of Agency Theory," *International Journal Of Managerial Finance*, Vol. 12, No. 5, Pp. 611–628, 2016, Doi: 10.1108/IJMF-05-2015-0116.

[16] M. A. Naseem, J. Lin, R. Ur Rehman, M. I. Ahmad, And R. Ali, "Does Capital Structure Mediate The Link Between CEO Characteristics And Firm Performance?," *Management Decision*, Vol. 58, No. 1, Pp. 164–181, Jan. 2020, Doi: 10.1108/MD-05-2018-0594.

[17] M. J. Rahman And X. Chen, "CEO Characteristics And Firm Performance: Evidence From Private Listed Firms In China," *Corporate Governance (Bingley)*, Vol. 23, No. 3, Pp. 458–477, Apr. 2023, Doi: 10.1108/CG-01-2022-0004.

[18] M. Alhmood, H. Shaari, R. Al-Dhamari, And A. A. Sani, "Does Ownership Concentration Matter For The Relationship Between CEO Characteristics And Real Earnings Management: Evidence From Jordan," *Euromed Journal Of Business*, 2023, Doi: 10.1108/EMJB-09-2022-0155.

[19] D. Bouaziz, B. Salhi, And A. Jarboui, "CEO Characteristics And Earnings Management: Empirical Evidence From France," *Journal Of Financial Reporting And Accounting*, Vol. 18, No. 1, Pp. 77–110, Mar. 2020, Doi: 10.1108/JFRA-01-2019-0008.

[20] G. Chi And A. R. Gooda, "Internal Control, Debt Risk, CEO Education And Earnings Management Evidence From China," *Journal Of Financial Reporting And Accounting*, Vol. 22, No. 1, Pp. 52–78, Feb. 2024, Doi: 10.1108/JFRA-05-2023-0237.

[21] D. Kalembe, T. K. Kaawaase, S. K. Nkundabanyanga, And I. N. Kayongo, "CEO Power, Audit Committee Effectiveness And Earnings Quality," *Journal Of Accounting In*

Emerging Economies, Vol. 14, No. 3, Pp. 585–611, May 2024, Doi: 10.1108/JAEE-09-2022-0277.

[22] S. Claessens, S. Djankov, And L. H. P. Lang, "The Separation Of Ownership And Control In East Asian Corporations," *J Financ Econ*, Vol. 58, No. 1–2, Pp. 81–112, 2000, Doi: 10.1016/S0304-405x(00)00067-2.

[23] S. Sheikh, "An Examination Of The Dimensions Of CEO Power And Corporate Social Responsibility," *Review Of Accounting And Finance*, Vol. 18, No. 2, Pp. 221–244, May 2019, Doi: 10.1108/RAF-01-2018-0034.

[24] S. Finkelstein And D. C. Hambrick, "Top-Management-Team Tenure And Organizational Outcomes: The Moderating Role Of Managerial Discretion," 1990.

[25] F. Li, T. Li, And D. Minor, "CEO Power, Corporate Social Responsibility, And Firm Value: A Test Of Agency Theory," *International Journal Of Managerial Finance*, Vol. 12, No. 5, Pp. 611–628, 2016, Doi: 10.1108/IJMF-05-2015-0116.

[26] W. L. Song And K. M. Wan, "Does CEO Compensation Reflect Managerial Ability Or Managerial Power? Evidence From The Compensation Of Powerful Ceos," *Journal Of Corporate Finance*, Vol. 56, Pp. 1–14, Jun. 2019, Doi: 10.1016/J.Jcorpfin.2018.11.009.

[27] S. N. Fadilah And L. Venusita, "CEO Power Dalam Kaitannya Dengan Nilai Perusahaan," *Jurnal Akuntansi AKUNESA*, Vol. 12, No. 3, 2024, Doi: 10.26740/Akunesa.

[28] O. Harris, J. B. Karl, And E. Lawrence, "CEO Compensation And Earnings Management: Does Gender Really Matters?," *J Bus Res*, Vol. 98, Pp. 1–14, May 2019, Doi: 10.1016/J.Jbusres.2019.01.013.

[29] Watts And Zimmerman, *Positive Accounting Theory: A Ten Year Perspective, The Accounting Review*. . 1990.

[30] H. S. Mundi, "CEO Social Network, Capital Structure Complexity And Firm Performance," *Review Of Behavioral Finance*, Vol. 16, No. 1, Pp. 96–111, Jan. 2024, Doi: 10.1108/RBF-09-2022-0214.

[31] J. F. Hair, T. M. Hult, C. M. Ringle, And M. Sarstedt, "A Primer On Partial Least Squares Structural Equation Modeling (PLS-SEM) Third Edition," 2022. [Online]. https://www.pls-sem.net/pls-sem-books/a-primer-on-pls-sem-3rd-ed/ (Accessed Date: August 18, 2025)

[32] N. Kock, "Warppls User Manual: Version 7.0," 2021. [Online]. Available: Www.Scriptwarp.Com (Accessed Date: 7 October 2025)

[33] N. Atawnah, A. Eshraghi, G. A. Baghdadi, And I. Bhatti, "Managerial Ability And Firm Value: A New Perspective," *Res Int Bus Finance*, Vol. 67, Jan. 2024, Doi: 10.1016/J.Ribaf.2023.102133.

[34] P. M. Dechow, A. P. Hutton, J. H. Kim, and R. G. Sloan, "Detecting Earnings Management: A New Approach," *Source: Journal Of Accounting Research*, Vol. 50, No. 2, Pp. 275–334, 2012, Doi: 10.1111/j.1475-679X.2012.00449.x

[35] S. Cristo-Andrade And M. J. Franco, "Cooperation As A Vehicle For Innovation: A Study Of The Effects Of Firm Size And Industry Type," *European Journal Of Innovation Management*, Vol. 23, No. 3, Pp. 329–347, Apr. 2020, Doi: 10.1108/EJIM-08-2018-0182.

[36] M. Ugur, E. Solomon, And A. Zeynalov, "Leverage, Competition, and Financial Distress Hazard: Implications For Capital Structure In The Presence Of Agency Costs," *Econ Model*, Vol. 108, Mar. 2022, Doi: 10.1016/J.Econmod.2021.105740.

[37] S. Han, V. K. Nanda, And S. D. Silveri, "CEO Power And Firm Performance Under Pressure," *Financ Manage*, Vol. 45, No. 2, Pp. 369–400, Jun. 2016, Doi: 10.1111/Fima.12127.

Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The authors equall contributed in the present research, at all stages from the formulation of the problem to the final findings and solution.

Sources of Funding for Research Presented in a Scientific Article or the Scientific Article Itself

No funding was received for conducting this study.

Conflict of Interest

The authors have no conflicts of interest to declare.

APPENDIX

Table 1. Variabel Measurement and operational definitions

Dependent Variable	Indicator	Source
Tobin's Q	$Qit = \frac{(BVAit + MVEit - BVEit)}{BVAit}$	[33]
Independent Variable		
Expert Power	CEO tenure	[24]
Ownership Power	(Total Share Owned Director)/ (Number of Shares Outstanding)x 100%	[24]
Prestige Power	Number of companies managed by the CEO	[24]
Mediating Variable		
Earnings Management	TACCit = Nit – CFOit…………(1) TACCit/Tait-1 = α(1/ Tait-1) + β1[(ΔSALit–ΔRECit)/ Tait-1) + β2(PPEit /Tait-1) + εit…….(2) NDACCit = α(1/Tait-1) + β1[(ΔSALit-ΔRECit/Tait-1] + β2(PPEit/Tait-1) + εi……………….(3) DACCit = (TACCit/TAit-1) – NDACCit………………..(4)	[34]
Control Variable		
Size	Ln (Total Asset)	[35]
Company Type	uses a dummy variable, namely, giving a score of 1 for companies in the high-profile category and 0 for companies in the low-profile category.	[35]
Independent Audit Committee	(Number of independent audit committee members)/ (Total number of audit committee members	[21]
Leverage	(Total Liabilities)/ (Total Equity)	[36]

Source: Own elaboration based on the literature review

Table 3. Result of the Measurement model evaluation

Indicators	Parameter	Result	Rule of thumb	Noted
EP	Significant Weight	*P value* < 0.01	P values < 0.01(level 1%)	**Accepted**
	VIF	1.042	VIF < 5 or < 3.3	**Accepted**
OP	Significant Weight	*P value* < 0.01	P values < 0.01(level 1%)	**Accepted**
	VIF	1.046	VIF < 5 or < 3.3	**Accepted**
PP	Significant Weight	*P value* < 0.01	P values < 0.01(level 1%)	**Accepted**
	VIF	1.014	VIF < 5 or < 3.3	**Accepted**

Source: WarpPLS output processed
Note: EP= Expert Power; OP= Ownership Power; PP = Prestige Power;

Table 4. Model Fit Indices

Criteria	Result	p-value	Rule of Thumb
Average Path Coefficient (APC)	0.134	0.001	P < 0.05
Average R-Square (ARS)	0.151	0.001	P < 0.05
Average Adjusted R-Square (AARS)	0.147	0.001	P < 0.05
Average Block VIF (AVIF)	1.047		≤ 3.3, Although ≤ 5 can be accepted
Average Full Collinearity VIF (AFVIF)	1.167		≤ 3.3, Although ≤ 5 can be accepted
Tehenhaus GoF (GoF)	0.373		≥ 0.10 (small), ≥ 0.25 (moderate), ≤ 0.36 (weak)
Sympson's paradox ratio	1.000		≥ 0.70
R-Squared contribution ratio	1.000		≥ 0.90
Statistical suppression ratio	0.714		≥ 0.70

Source: WarpPLS output processed

Table 5. Path Coefficients and p-value result

Path	Expected	Path coefficients	Conclusion
CEO power → Firm Value	(+)	-0.084**	Not Supported
CEO power → Earning Management	(+)	0.070**	**Supported**
CEO power → Earnings Management→ Firm Value	(+)	0.013 **	**Supported**
Control Variabel			
Size	(+)	0.096**	
Firm Type	(+)	0.017	
Audit Committee	(+)	0.042	
Leverage	(+)	0.531***	

Source: WarpPLS output processed
Note: * significant at alpha 10%; ** significant at alpha 5%; *** significant at alpha 1%.