

ABSTRACT

The purpose of this research is to examine the relationship between CEO power and firm value, mediated managerial ability and earnings management. CEO power reflects the level of influence and dominance in strategic decision-making that has the potential to increase or decrease firm value, supported by Agency Theory and Upper Echelons Theory.

This study used data from 108 manufacturing companies that met purposive sampling criteria. The sample was taken from 2018 to 2023, resulting in a total of 648 observations. All samples were from manufacturing companies listed on the Indonesia Stock Exchange. The analytical tool used to test the hypotheses was PLS-SEM with the Smart PLS 4.0 application.

The results of this study indicate that CEO Power has a negative effect on firm value and a positive effect on earnings management, but does not affect managerial ability. Managerial ability has a positive effect on firm value and earnings management. Earnings management has a positive effect on firm value. Other research results indicate that earnings management is able to mediate the relationship between CEO Power and managerial ability on firm value, while managerial ability has not been able to mediate the relationship between CEO Power and firm value, and managerial ability and earnings management have not been able to mediate the relationship between CEO Power and firm value.

These results strengthen the Agency Theory, namely the existence of a conflict of interest between majority shareholders and minority shareholders. CEOs with power tend to side with the interests of the majority. Furthermore, the results of this study also support the Upper Echelons Theory, namely that CEO characteristics have a greater influence on the behavior to engage in earnings management than firm value directly. Therefore, managerial ability factors are key to ensuring that power produces sustainable performance.

Keywords: CEO Power, Managerial Ability, Earnings Management, Firm Value, Firm Size, Firm Type, Independent Audit Committee, Leverage.

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