

## The Effect of CEO Power on Firm Value: The Moderating Role of Firm Size

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### Abstract

*This study provides new empirical evidence on how CEO power—proxied by insider status, tenure, and financial expertise affects firm value within Indonesian state-owned enterprises (SOEs), and how firm size moderates this relationship. Unlike prior studies focusing mainly on private firms or developed markets, this research highlights the unique governance dynamics of SOEs that operate under dual mandates of profitability and social responsibility. Using 135 firm-year observations from 2019–2023 and panel regression with interaction terms, the findings reveal that CEO insider status and financial expertise significantly reduce firm value, whereas CEO tenure has no direct effect. Importantly, firm size mitigates the negative influence of CEO insider and financial expertise, suggesting that larger SOEs possess stronger governance mechanisms capable of constraining excessive managerial power. These results extend agency theory by demonstrating that the governance effectiveness of CEO power depends on organizational scale and ownership context. This study contributes to the corporate governance literature by offering context-specific evidence from emerging markets and providing practical implications for policymakers to strengthen oversight in smaller SOEs to preserve firm value.*

**Keywords:** CEO Power; Firm Value; Firm Size; Agency Theory; State-Owned Enterprises.

### Introduction

The CEO (Chief Executive Officer) plays an important role in determining the strategic direction and operational policies of the firm (Graham et al., 2020). Power is needed by the CEO to be able to exert strong influence, both inside and outside the firm (Finkelstein, 1992). CEO power refers to the attributes possessed by the CEO in making corporate decisions, which can be influenced by several factors such as status as an insider CEO (Chiu et al., 2021), length of service (Graham et al., 2020), as well as the financial expertise he has (Le et al., 2022). CEOs with high power tend to have

greater ability to influence firm decisions, which has the potential to increase the firm's value in the eyes of investors (Chiu et al., 2021). The strong authority held by the CEO allows him to be more flexible in responding to market dynamics, making proactive decisions, and increasing operational efficiency without having to go through complex bureaucracy (Veprauskaite & Adams, 2013). In addition, CEOs with high power often have extensive experience and expertise, which allows for better risk management and the creation of superior business strategies (Tuwey & Tarus, 2016).

Firm value is a key indicator that reflects market perception of performance, stability and long-term growth prospects (Lee et al., 2015). This value is not only determined by financial factors such as profitability, capital structure, and operational efficiency, but also by strategic aspects such as innovation, expansion policies, and competitive advantage in the industry (Chiu et al., 2021). Companies with high valuations tend to be more attractive to investors because they are considered to have strong fundamentals and promising growth potential (Sheikh, 2018). In addition, optimal firm value also provides benefits in the form of easier access to funding, increased competitiveness, and gaining greater trust from stakeholders (Sheikh, 2019). Therefore, understanding the factors that contribute to increasing a firm's value is a crucial aspect of financial analysis and business strategy, particularly in efforts to create long-term sustainability and prosperity for all stakeholders.

CEO power plays a strategic role in determining the policy direction and values of a firm, including in State-Owned Enterprises (SOEs). SOEs have characteristics that distinguish them from private companies, particularly in terms of goal orientation, ownership structures concentrated in the government, and stricter oversight from the public and regulators (Bruton et al., 2015). SOEs aim not only to achieve profit but also to fulfill social mandates (such as providing public services and building infrastructure). These characteristics create unique challenges in SOE governance, as CEO performance and accountability are measured not only from a financial perspective but also from a social and economic perspective (Huang et al., 2018). This can influence how CEO power is utilized and how corporate value is defined in the SOE context.

The relationship between CEO power and firm value in State-Owned Enterprises (SOEs) embodies a complex duality that reflects both strategic potential and governance vulnerability. On one side,

concentrated CEO power can become a driving force that enhances organizational agility, accelerates strategic decision-making, and fosters innovation by reducing bureaucratic barriers that commonly hinder public enterprises. Strong and visionary leadership enables CEOs to reallocate resources efficiently, respond promptly to market fluctuations, and execute long-term strategies that strengthen the firm's competitive position and growth prospects. This form of decisive leadership is particularly essential in industries undergoing rapid transformation, where timeliness and strategic adaptability directly determine the sustainability of firm value. However, excessive concentration of power without proper oversight mechanisms can generate agency problems, as the CEO may pursue personal or political interests that conflict with the broader objectives of shareholders and stakeholders. In such cases, managerial discretion may evolve into managerial dominance, reducing board independence, weakening internal control systems, and increasing the risk of opportunistic behavior, rent extraction, or unethical practices that erode organizational integrity and market confidence.

Previous research has produced inconsistent findings regarding the relationship between CEO power and firm value. Some studies have found that CEO power has a positive effect on firm value. Chiu et al. (2021) shows that CEOs who have significant power are able to direct the firm in making strategic decisions, such as utilizing knowledge capital and allocating resources appropriately. Sheikh (2018) also found that CEO power can help companies turn market challenges into opportunities through fast and adaptive decision making, so that their actions contribute positively to the firm's performance and value.

However, other studies show that CEO power can have a negative impact on firm value. Lee et al. (2015) found that excessive CEO power can disrupt internal oversight mechanisms and trigger opportunistic behavior, ultimately harming firm value.

Excessive CEO power tends to disrupt internal oversight mechanisms that should correct potential irregularities, thus creating conflicts of interest where decisions are often made impulsively and unilaterally without critical input from the board of directors, resulting in policies that are unresponsive to market dynamics and excessively risky investments; this reduces investor confidence, worsens operational efficiency, and ultimately reduces the overall value of the firm.

Firm size reflects operational capacity, asset ownership, and competitiveness (Eisenberg et al., 1998). Larger firms tend to have broader access to resources, more complex organizational structures, and tighter governance systems, which can influence how CEO power impacts firm value (Eisenberg et al., 1998; Jin et al., 2018; Yang & Wang, 2023). In addition, large companies are generally more resilient to market volatility and have easier access to external funding (Abdi et al., 2022; Wang & Zhao, 2020).

The relationship between CEO power and firm value is contingent and depends on the organizational context (Ahsan et al., 2022). Therefore, this study proposes firm size as a crucial moderating variable to explain the potential heterogeneity in this relationship. Firm size, which reflects operational capacity, asset ownership, and competitiveness, is associated with fundamental differences in governance structures (Hill et al., 2016). Larger entities tend to have more complex organizational structures and stricter and more formalized governance and internal control systems. These structural differences have the potential to influence how a CEO's power translates into firm value. Furthermore, larger firms are generally more resilient to market volatility and have easier access to external funding. Therefore, investigating firm size as a moderating variable is essential for gaining a more nuanced and contextually rich understanding of the dynamics of the relationship between CEO power and firm value.

This study aims to analyze the influence of CEO power on the value of state-owned enterprises (SOEs) in Indonesia, considering firm size as a moderating variable. This research is expected to provide benefits to academics, potential investors, and SOEs in understanding the dynamics of the relationship between CEOs and firm value. Specifically, this study aims to answer the following research question: Does firm size moderate the influence of CEO power (proxied by CEO insider, CEO tenure, and CEO financial expertise) on firm value?

## Literature Review

### *Agency Theory*

Agency theory is a theory that explains the relationship between principals (shareholders) and agents (management, including the CEO) in a firm, especially in the context of the separation of ownership and control (Hill & Jones, 1992). This theory highlights the potential for conflicts of interest that arise when agents have more information than principals (information asymmetry) and tend to make decisions that benefit their personal interests rather than the interests of shareholders (Bebchuk & Fried, 2003). In this study, CEO power is a key element that can strengthen or weaken agency relationships. CEOs with greater power can have more control over strategic decision-making, which can have implications for firm value (Chintrakarn et al., 2014). On the one hand, a strong CEO can act more independently and make decisions that support the firm's growth (Musa et al., 2023). However, on the other hand, without good governance mechanisms, CEOs who have too much power can act opportunistically, thereby reducing the firm's value (Lee et al., 2015). Therefore, this study considers how CEO Power influences firm value from an agency theory perspective.

### *CEO Insider and Firm Value*

Based on the agency theory perspective, CEOs who come from within the firm or are

known as insider CEOs are seen as having a greater potential for conflicts of interest than CEOs who come from outside the firm (Chiu et al., 2021). An insider CEO tends to have a historical closeness to the organization, including informal relationships with board members, senior management, and controlling shareholders (Shaikh et al., 2018). This relationship can create conditions that are not entirely objective in strategic decision making (Lei et al., 2019). In such a situation, the CEO is more likely to act in the interests of himself or a particular group loyal to him, rather than acting in the interests of shareholders in general (Shaikh et al., 2023). Furthermore, insider CEOs often wield greater influence in the governance structure, which can weaken the oversight function of the board of directors and audit committee. This power imbalance has the potential to trigger inefficient or even opportunistic managerial practices, such as selecting low-value-added projects or manipulating financial information. Thus, the presence of insider CEOs can create distortions in governance that negatively impact market perception and ultimately reduce firm value. Therefore, the researchers formulate the following hypothesis:

**H<sub>1</sub>:** CEO insiders have a negative impact on firm value.

### ***CEO Tenure and Firm Value***

Within the framework of agency theory, a CEO's tenure that is too long can create serious agency problems, especially when the CEO's power becomes stronger and monitoring mechanisms weaken (Walters et al., 2007a). CEOs who serve long terms tend to have greater influence over the board of directors, organizational structure, and strategic decision-making, potentially creating a state of entrenchment, a situation in which the CEO feels safe from oversight and is not easily replaced even if his or her performance declines (Tanikawa & Jung, 2019a). This type of stratification risks opportunistic behavior, such as maintaining

inefficient projects, delaying important restructurings, or even engaging in earnings management to maintain personal image. Furthermore, long-tenured CEOs also potentially experience a decreased sensitivity to changes in the external environment and market pressures, thus hampering innovation and strategic flexibility (Huybrechts et al., 2013). As a result, the firm may experience a decline in value due to decisions that no longer reflect the long-term interests of shareholders. Based on this description, the following hypothesis is proposed:

**H<sub>2</sub>:** CEO tenure has a negative effect on firm value.

### ***CEO Financial Expertise and Firm Value***

From an agency theory perspective, a CEO financial expertise, does not always positively impact firm value. While a thorough understanding of financial statements and financial instruments is considered a crucial asset for strategic decision-making, such expertise can also be a tool for CEOs to engage in opportunistic behavior that is difficult to detect (Le et al., 2022). CEOs with a financial background tend to be more adept at understanding loopholes in reporting systems, thus having a greater potential to engage in accounting manipulation or earnings management to enhance the firm's performance in the eyes of investors (Jiang et al., 2013). This can mislead the market, creating a perception of the firm's value that is inconsistent with its fundamentals, and ultimately reducing shareholder confidence and the firm's market value (Gounopoulos & Pham, 2018a). Furthermore, CEOs with financial expertise may also feel more confident in taking aggressive financial risks without careful consideration of the firm's long-term interests. Therefore, based on agency theory, which emphasizes the need for oversight of managerial behavior, this study proposes the following hypothesis:

**H<sub>3</sub>:** CEO financial expertise has a negative effect on firm value.

### ***Firm Size, CEO Insider, and Firm Value***

From an agency theory perspective, the effectiveness of management oversight is strongly influenced by organizational characteristics, including firm size. Larger companies generally have more complex governance structures, with stronger boards of directors, more active audit committees, and more formal internal control systems (Eisenberg et al., 1998). Thus, in large companies, the potential conflict of interest arising from the presence of insider CEOs with historical and emotional ties to the firm can be further reduced due to tighter oversight and a more established checks and balances mechanism (Moeller et al., 2004). Conversely, in small companies where oversight systems tend to be weaker, insider CEOs have a greater opportunity to strengthen their influence and direct decisions according to personal or group interests (Eisenberg et al., 1998). Therefore, firm size is suspected to moderate the relationship between insider CEOs and firm value, where the negative influence of insider CEOs on firm value will be stronger in small companies and weaker in large companies (Jin et al., 2018). Based on this explanation, the proposed hypothesis is:

**H<sub>4a</sub>:** Firm size weakens the influence of insider CEOs on firm value.

### ***Firm Size, CEO tenure, and Firm Value***

From an agency theory perspective, long CEO tenure is often associated with increased managerial power and the risk of managerial entrenchment, a situation in which the CEO feels secure from oversight and is difficult to replace, even if their performance declines (Choi et al., 2020). This situation can lead to opportunistic behavior that is detrimental to shareholder interests. However, firm size is believed to play a significant role in strengthening or weakening this influence. In large companies, governance structures are typically more complex and robust, with more institutionalized oversight systems

and active institutional shareholder involvement (Ibhagui & Olokoyo, 2018). This can limit the room for opportunistic behavior for long-tenured CEOs, as their actions are more easily detected and controlled. Conversely, in small companies, weak oversight systems and dependence on long-serving CEOs can actually increase the risk of entrenchment and exacerbate its impact on firm value. Thus, firm size is assumed to weaken the negative influence of CEO tenure on firm value. Therefore, the researchers formulated the following hypothesis:

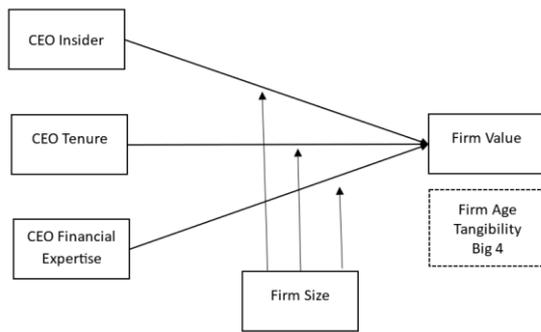
**H<sub>4b</sub>:** Firm size weakens the influence of CEO tenure on firm value.

### ***Firm Size, CEO Financial expertise, and Firm Value***

Agency theory suggests that CEOs with financial expertise have the potential to use their technical knowledge for personal gain, particularly in the manipulation of financial statements or aggressive financial decision-making that does not fully reflect shareholder interests (Gounopoulos & Pham, 2018a). Larger companies generally have stronger and more complex governance and internal oversight systems, including professional internal audits and stricter oversight from regulators and institutional investors. This can mitigate the potential misuse of financial expertise by CEOs (Ibhagui & Olokoyo, 2018). Conversely, in smaller companies, external and internal oversight tends to be weaker, allowing CEOs with financial backgrounds more freedom to act opportunistically without adequate detection. Therefore, in this context, firm size is predicted to moderate the influence of CEO financial expertise on firm value. Therefore, the proposed hypothesis is:

**H<sub>4c</sub>:** Firm size weakens the influence of CEO financial expertise on firm value.

Figure 1: Conceptual Framework



Source: Processed by researchers (2025).

**Research Method**

This study uses a quantitative approach to empirically test the relationship between the independent variables and the dependent variable. The data source is secondary data derived from annual reports published on the official website of the Indonesia Stock Exchange, [www.idx.co.id](http://www.idx.co.id). The research subjects are state-owned enterprises listed on the Indonesia Stock Exchange for the period 2019-2023.

This study has a limitation related to the research sample, which focuses solely on State-Owned Enterprises (SOEs) in Indonesia. SOEs have distinctive characteristics compared to private firms, as they pursue dual objectives commercial profitability and social responsibility. This dual mandate often shapes managerial behavior and decision-making differently from private enterprises, where profit maximization is the primary goal. Therefore, the results of this study should not be generalized to the private sector, as the governance mechanisms, ownership structures, and accountability systems differ substantially. Future research could include comparative analyses between SOEs and non-SOEs to provide a broader understanding of how CEO power influences firm value across different institutional contexts. The researcher established the following criteria for the sample:

Table 1: Research sample criteria

No.	Criteria	Amount
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1	State-owned companies listed on the Indonesia Stock Exchange during the 2019-2023 period	27
2	Number of samples during the period 2019-2023 (27x5)	135

Source: Processed by researchers (2025)

There are three types of variables used in this study: the independent variable (X), the dependent variable (Y), and the moderating variable (Z). The following are the measurements of these research variables:

Table 2: Definition and Measurement of Research Variables

Dependent Variable (Y)	
Firm Value	Tobin's Q (Market value of assets divided by the book value of assets).
Independent Variable (X)	
CEO <i>Insider</i> (X <sub>1</sub> )	Score 1 if the CEO is from within the firm, 0 otherwise.
CEO <i>Tenure</i> (X <sub>2</sub> )	The number of years the CEO has served.
CEO <i>Financial expertise</i> (X <sub>3</sub> )	Score 1 if the CEO has a background in finance or accounting, 0 otherwise.
Moderating Variable (Z)	
Firm Size	Natural logarithm of total assets
Control Variable	
Firm Age	Amount of years firm listed in IDX
Tangibility	PPE/Total Assets
Big 4	Score 1 if the firm audited by Big 4, 0 otherwise.

Source: Processed by researchers (2025)

Researchers used the following regression model to analyze the relationship between CEO insider, CEO tenure, CEO financial expertise, and firm value:

$$NP_{it} = \beta_0 + \beta_1 CINS_{it} + \beta_2 CTEN_{it} + \beta_3 CEXP_{it} + \varepsilon \quad (1)$$

The researchers then used a moderated regression model equation to analyze the relationship between firm size, CEO insidership, CEO tenure, CEO financial expertise, and firm value. The moderated regression model equation is as follows:

$$NP_{it} = \beta_0 + \beta_1 CINS_{it} + \beta_2 CTEN_{it} + \beta_3 CEXP_{it} + \beta_4 FSIZE_{it} + \beta_5 FAGE + \beta_6 TANG + \beta_7 BIG4 + \varepsilon \quad (2)$$

$$NP_{it} = \beta_0 + \beta_1 CINS_{it} + \beta_2 CTEN_{it} + \beta_3 CEXP_{it} + \beta_4 FSIZE_{it} + \beta_5 CINS * FSIZE_{it} + \beta_6 CTEN * FSIZE_{it} + \beta_7 CEXP * FSIZE_{it} + \beta_8 FAGE + \beta_9 TANG + \beta_{10} BIG4 + \varepsilon \quad (3)$$

## Result and Discussion

The results of the descriptive statistical analysis in table 3 show the characteristics of the data used in this study.

Tabel 3: Statistik Deskriptif

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
<b>CINS</b>	135	0.00	1.00	0.4741	0.50119
<b>CTEN</b>	135	1.00	7.00	2.5556	1.43343
<b>CEXP</b>	135	0.00	1.00	0.3481	0.47816
<b>NP</b>	135	0.03	7.29	0.5258	0.80528
<b>FSIZE</b>	135	20.00	28.00	24.67	1.74420
<b>FAGE</b>	135	3.00	23.00	15.59	6.87988
<b>TANG</b>	135	0.00	0.87	0.29	0.26919
<b>BIG4</b>	135	0.00	1.00	0.5037	0.50185
<b>N</b>	135				

Source; Processed by researchers (2025)

The results of the descriptive statistical analysis in Table 3 show the characteristics of the data used in this study. Based on the descriptive statistics table, this study used panel data from 135 companies (N=135) that were valid and had no missing data. The dependent variable, firm value (NP), showed an average value of 0.5258 with a standard deviation of 0.80528. The range of firm value data was quite wide, from a minimum value of 0.03 to a maximum of 7.29, indicating significant value variation among the sample companies.

In the main independent variables, the average CEO tenure (CTEN) is 2.56 years, with the shortest tenure being 1 year and the longest being 7 years. The CEO insider dummy variable (CINS) has an average of 0.4741, which can be interpreted as meaning that approximately 47.4% of companies in the sample are led by CEOs from within the firm. Meanwhile, the CEO financial expertise variable (CEXP) has an average of 0.3481, meaning that approximately 34.8% of CEOs in the sample have expertise in finance. The moderating variable, firm size (FSIZE), has an average value of 24.67.

As for the control variables, the average firm age (FAGE) is 15.59 years, with the youngest firm being 3 years old and the oldest being 32 years old, and the asset tangibility level (TANG) has an average of 0.2851. Finally, the BIG 4 dummy variable shows an average of 0.5037, indicating that approximately 50.4% of the sample firms use auditor services from Big 4 public accounting firms.

Tabel 4: Regression Analysis

Dependent Variable-Firm Value	Model 1	Model 2	Model 3
CINS	-0.182 (0.155)	-0.039 (0.756)	-8.056*** (<0.001)
CTEN	0.054 (0.219)	0.066 (0.114)	1.164** (0.022)
CEXP	-0.425*** (0.004)	-0.286 (0.063*)	-5.074*** (0.005)
FAGE	0.047*** (<0.001)	0.044*** (<0.001)	0.036*** (<0.001)
TANG	0.601** (0.022)	0.189 (0.483)	0.536*** (0.038)
BIG4	-0.447*** (0.002)	-0.096 (0.555)	-0.124 (0.409)
FSIZE		-0.180*** (<0.001)	-0.276*** (<0.001)
CINSxFSIZE			0.346*** (<0.001)
CTENxFSIZE			-0.046** (0.023)
CEXPxFSIZE			0.200*** (0.005)
Adjusted R <sup>2</sup>	0.231	0.306	0.421
F	7.706*** (<0.001)	9.450*** (<0.001)	10.744*** (<0.001)
N	135	135	135

Note: \*\*\*, \*\*, \* means significant level <1%, <5%, <10%

Source: Processed by researchers (2025)

Based on the results of the regression analysis carried out in table 4, it can be explained that model 1 indicates that CINS does not have a significant relationship with firm value, sig.= 0.155 (>0.05), H1 is rejected. Meanwhile, in model 3, the interaction variable (CINSxFSIZE) has a sig.= <0.001 (<0.01) and a minus coefficient value (-8.056) which means that the H4a hypothesis is accepted. Then in model 1, CTEN also does not have a significant relationship with firm value, sig.= 0.219 (>0.05), H2 is rejected. Meanwhile, in model 3, CTENxFSIZE sig.= 0.023 (<0.05), H4b is rejected because

the direction is negative ( $\beta = -0.046$ ). Then in model 1, CEXP has a significant effect on firm value with a sig. value = 0.004 (<0.05) and a negative coefficient ( $\beta = -0.425$ ), so H3 is accepted. Meanwhile in model 3, CEXPxFSIZE has a sig. value = 0.005 (<0.05), so H4c is accepted.

#### *CEO Insider on Firm Value*

Based on the results of the regression analysis, the first hypothesis (H1), which states that insider CEOs have a negative effect on firm value, is rejected. Statistical testing indicates that the internal CEO status does not have a significant direct

impact on firm value. Therefore, in the context of this study, there is insufficient empirical evidence to conclude that appointing an inside CEO can automatically reduce firm value.

Theoretically, an insider CEO is seen as having a greater potential for conflict of interest due to historical closeness and informal relationships within the organization (Chiu et al., 2022). This theory argues that such closeness can weaken the oversight function and open up opportunities for the CEO to make opportunistic decisions, thereby risking shareholder harm and reducing firm value (Shaikh et al., 2018). While this theoretical basis is sound, research shows that in practice, this potential agency risk is not automatically and directly reflected in a decline in firm value.

#### ***CEO Tenure on Firm Value***

Based on the results of the regression analysis, the second hypothesis (H2), which states that CEO tenure has a negative effect on firm value, was not supported. The statistical results indicate that the duration of a CEO's leadership does not have a significant relationship with firm value. This finding suggests that tenure alone does not necessarily determine the effectiveness or strategic impact of a CEO's leadership within Indonesian State-Owned Enterprises (SOEs). From an agency theory perspective, longer CEO tenure is generally expected to increase managerial entrenchment and weaken monitoring mechanisms (Tanikawa & Jung, 2019; Walters et al., 2007).

However, this theoretical prediction may not hold in the context of Indonesian SOEs due to several institutional factors. The tenure of SOE CEOs is often not purely determined by performance or market mechanisms but is instead influenced by political appointments, ministerial restructuring, and periodic changes in government policy. These external interventions frequently result in relatively short and unstable tenures, limiting the time

for CEOs to consolidate power or implement long-term strategies that significantly affect firm value. Moreover, the high level of governmental oversight and bureaucratic procedures in SOEs can constrain CEO discretion, thereby reducing the potential for entrenchment effects typically observed in private-sector firms. Consequently, the insignificant relationship between CEO tenure and firm value may reflect the institutional nature of SOEs, where leadership turnover is driven more by political and administrative cycles than by managerial performance or shareholder value creation.

#### ***CEO Financial Expertise on Firm Value***

Based on the regression analysis, the third hypothesis (H3), which states that CEO financial expertise negatively influences firm value, is accepted. The results show a statistically significant negative effect between CEOs with financial backgrounds and firm value. This indicates that firms led by CEOs possessing financial or accounting expertise tend to exhibit lower firm value, a finding that appears counterintuitive but theoretically meaningful.

From an agency theory perspective, CEOs with financial expertise may exploit their technical knowledge to engage in opportunistic behavior such as earnings management or accounting manipulation (Jiang et al., 2013; Gounopoulos & Pham, 2018b). These practices can distort the firm's true performance and reduce transparency, thereby undermining investor confidence and decreasing firm value. This explanation aligns with the agency-based view that greater informational advantage can amplify managerial opportunism when monitoring mechanisms are weak.

However, this study's findings can also be interpreted through signalling theory and market perception dynamics. In emerging markets such as Indonesia, investors may interpret the appointment of financially expert CEOs not purely as a positive signal

of competence, but rather as an indicator of potential earnings management, financialization of strategy, or short-term profit orientation. Such CEOs may prioritize accounting-based performance metrics or aggressive financial policies that enhance short-term earnings at the expense of long-term value creation. As a result, the market might discount firm value due to mistrust of “financialized” leadership, perceiving these CEOs as more focused on cosmetic financial results than sustainable strategic growth.

#### ***The Moderating Role of Firm Size on CEO Insider and Firm Value***

Based on the analysis, it was found that firm size significantly moderates the relationship between insider CEOs and firm value. This supports hypothesis H4a, which states that firm size weakens the negative influence of insider CEOs on firm value. Specifically, the negative impact of an insider CEO is stronger in small companies. However, as firm size increases, this negative influence diminishes significantly. This finding confirms that the effect of insider CEO status is not uniform, but rather depends on the context and size of the organization in which the CEO leads.

This moderating role can be explained using the agency theory framework. This theory assumes that large companies generally have stronger governance structures and more formal internal oversight systems. The presence of a stronger board of directors, an active audit committee, and established checks and balances in large companies can reduce the potential for conflicts of interest posed by insider CEOs. Conversely, in smaller companies where oversight systems tend to be weaker, an insider CEO has a greater opportunity to direct decisions according to their personal interests, thus amplifying the negative impact on firm value. Thus, firm size serves as a proxy for governance strength, mitigating the agency risk posed by an insider CEO.

#### ***The Moderating Role of Firm Size on CEO Tenure and Firm Value***

Based on the analysis results, hypothesis H4b, which posited that firm size would weaken the negative influence of CEO tenure on firm value, is rejected. The regression results show a statistically significant but negative interaction coefficient between CEO tenure and firm size. This indicates that, contrary to the initial hypothesis, the negative impact of CEO tenure on firm value becomes stronger as firm size increases.

This finding suggests that the moderating role of firm size operates differently in the context of Indonesian SOEs than expected under classical agency theory. In large SOEs, CEOs typically manage complex bureaucratic structures, extensive stakeholder networks, and high levels of political oversight. These characteristics can reduce managerial autonomy but simultaneously increase administrative rigidity. As CEOs remain in office longer, they may develop entrenched political alliances and gain deeper control over hierarchical layers, allowing them to consolidate influence rather than being effectively monitored. Consequently, longer CEO tenure in larger SOEs may amplify entrenchment effects, leading to decision inertia, reduced strategic responsiveness, and ultimately a decline in firm value.

This result highlights that in emerging-market SOEs, organizational scale does not automatically translate into stronger governance discipline, as often assumed in private-sector settings (Hill et al., 2016; Ibhagui & Olokoyo, 2018). Instead, larger firms may suffer from diffusion of accountability and bureaucratic complexity, which weaken monitoring effectiveness. Therefore, while the initial hypothesis drew on the premise that larger firms possess better control systems, the empirical evidence reveals a context-specific mechanism: in politically influenced SOEs, size magnifies the adverse impact of prolonged CEO tenure by

entrenching managerial power within rigid hierarchies and politicized governance frameworks.

### ***The Moderating Role of Firm Size on CEO Financial Expertise and Firm Value***

Based on the analysis results, hypothesis H4c, which states that firm size weakens the influence of CEO financial expertise on firm value, is accepted. The test results indicate that the interaction between CEO financial expertise and firm size has a significant effect. Specifically, this finding confirms that the negative effect of CEO financial expertise on firm value is weaker in larger firms. This means that although CEO financial expertise is negatively associated with firm value, the negative impact is less severe in large firms than in small firms.

These findings align closely with the agency theory framework. This theory argues that CEOs with financial expertise have the potential to misuse their knowledge for personal gain, for example through financial statement manipulation. However, larger companies generally have stronger and more complex governance and internal oversight systems, such as professional internal audits and stricter oversight from regulators and institutional investors. These robust oversight mechanisms can mitigate the potential misuse of financial expertise by CEOs. Conversely, in smaller companies, where oversight tends to be weaker, CEOs with financial backgrounds have greater latitude to act opportunistically without adequate detection.

### **Conclusion**

The findings of this study highlight the need for stronger governance mechanisms to mitigate the risks associated with concentrated CEO power in Indonesian state-owned enterprises (SOEs). Given that CEO insider status and financial expertise can negatively affect firm value, SOEs should enhance their internal control and oversight structures. This includes

strengthening board independence particularly in audit and remuneration committees to ensure that executive actions are objectively monitored. Clear tenure limits and rotation policies for CEOs are also essential to prevent managerial entrenchment, while transparent disclosure of executive decisions and performance evaluations can increase investor confidence and reduce information asymmetry.

Furthermore, SOEs should proactively institutionalize a comprehensive and transparent performance measurement system that integrates both financial and non-financial indicators to discourage short-termism among powerful CEOs. Empowering internal and external auditors to report directly to independent boards will reinforce accountability. At the policy level, the Ministry of State-Owned Enterprises can develop a governance risk-mapping framework to identify entities with high CEO power concentration and apply targeted interventions—such as board restructuring, enhanced disclosure requirements, or ethical leadership training. Collectively, these mechanisms will help build a governance culture rooted in transparency, accountability, and role separation, ultimately safeguarding firm value in Indonesia's public sector.

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