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Firm Value with Political Connections and Institutional Ownership as Moderation

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Abtract

This research aims to analyze the effect of CEO power, CEO duality, and CEO busyness on firm value with the moderating role of political connections and institutional ownership. This study uses panel data regression analysis and Moderated Regression Analysis (MRA) methods. The research population is 440 energy companies on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. Purposive sampling technique is used to select the research population based on certain criteria so that a total research sample of 180 companies is found. Quantitative data is taken from the company's annual report and analyzed using Econometric Views (EViews). This study found that CEO power has a positive effect on firm value. Furthermore, this study also found that CEO duality and CEO busyness have a negative effect on firm value. Then, political connections and institutional ownership can moderate the effect of CEO duality and CEO busyness on firm value. This study provides additional empirical evidence on agency theory. In addition, this study recommends that corporate leaders can increase their stock ownership, as well as suppress duality, busyness, and political connections in order to create positive firm value.

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1. Introduction

The main objective of the company is to maximize profits or wealth, especially for shareholders (Haryanto et al., 2018; Bataineh & Bataineh, 2021; Bakhtiar et al., 2021; Harmono et al., 2023). Increasing shareholder wealth, namely by maximizing the market value of the company's stock price. Firm value reflects investors' assessment of the company's performance in the capital market, which is represented by the stock price formed from the relationship between supply and demand in the capital market (Sumarno et al., 2023). Firm value is important for investors to understand because it reflects how the market views the success or failure of the company. Furthermore, firm value is also important because it directly affects the prosperity of shareholders who are the main stakeholders of a company (Suriawinata & Nurmalita, 2022; Chang & Lee, 2022; Bai et al., 2023; and Jonah et al., 2024).

This study refers to research conducted by Liang et al. (2024) which analyze the effect of Chief Executive Officer (CEO) power on company performance. Using a sample of companies listed in China during the COVID-19 pandemic, researchers found that companies led by powerful CEOs experienced smaller stock price declines during the crisis compared to companies led by less powerful CEOs. However, conflicting results were found in a study conducted by Maharani et al. (2024). The study conducted by Maharani et al. (2024) examined the effect of CEO power on company performance in the Indonesian manufacturing sector and found that CEO power has a negative effect on company performance.

The second study referred to in this study is Bukari et al. (2024) which examines the effect of CEO duality on firm value. The findings show that CEO duality has a negative and significant effect on firm value. However, different results were found by Rachman et al. (2024). Rachman et al. (2024) examined the effect of CEO duality on the value of banking sector companies listed on the IDX in the period before and after COVID-19. This study shows that CEO duality has no effect on firm value in the period before or when COVID-19 hit.

The last study referred to in this study is Anas et al. (2023) which examines the effect of CEO busyness on company performance. This study shows that CEO busyness has a negative and significant effect on company performance. However, research conducted by Sany et al. (2024) showed different results. Sany et al. (2024) examined the effect of CEO busyness on firm value in Thailand in the period 2018-2022 and found that CEO busyness had no effect on firm value.

The description of the study above has tested and discussed the relationship between CEO power, CEO duality, and CEO busyness on firm value, but shows varying results or inconsistent findings from previous studies (Anas et al., 2023; Bukari et al., 2024; Liang et al., 2024; Maharani et al., 2024; Rachman et al., 2024; Sany et al., 2024). Inconsistency in research results can arise because there are differences in measurement methods, observation periods, research objects, and effects between selected variables (Miles, 2017). In addition, there is a suspicion of the possibility of moderating variables involved in the inconsistency of previous research results (Pokhariyal, 2019). Therefore, researchers suspect that there are other factors that affect the effect of CEO power, CEO duality, and CEO busyness on firm value. Factors suspected of moderating this effect are political connections and institutional ownership (Daryaei & Fattahi, 2020; Hu et al., 2024).

In the energy sector, external factors such as political connections and institutional ownership can also play a role. Energy companies are often under close scrutiny from the public and regulators. CEOs with political connections can lobby governments to maintain policies that benefit their companies, even if these policies are detrimental to the environment (Hu et al., 2024). On the other hand, institutional ownership can increase a company's responsiveness to market changes, especially in the energy sector which is heavily influenced by global commodity price fluctuations. With the support of institutional shareholders, companies can more quickly adjust their strategies to face market challenges (Daryaei & Fattahi, 2020). Thus, this study adds moderating variables, namely political connections and institutional ownership in explaining the relationship between the independent and dependent variables.

Research on political connections in Indonesia has been conducted by several academics, which shows that political connections often have a negative effect on firm value (Iqrasari et al., 2020; Amin & Cumming, 2023; Islam et al., 2023; Ngo & Ha, 2024). Research by Supatmi et al. (2021) also shows that companies with strong political connections often face major challenges related to unpredictable policy changes, which have an impact on declining long-term performance. Meanwhile, studies on institutional ownership in Indonesia, such as those conducted by Widodo et al. (2023) and Yahya et al. (2024), emphasize that companies with high institutional ownership tend to have better governance and are more efficient in dealing with market uncertainty. This shows the importance of the role of institutional ownership in increasing firm value, especially in sectors that are heavily influenced by government policies such as the energy sector. This research will develop an understanding of how political connections and institutional ownership interact and influence firm value in the energy sector, as well as provide new insights into the dynamics of moderation in the context of emerging markets, particularly Indonesia.

CEO is the most prominent person in decision making in a company. Low firm value is certainly a failure for the CEO because they are the people who have the greatest responsibility for maintaining the stability of the company (Liang et al., 2024). Therefore, the CEO's actions may have an impact on the firm value. The CEO has significant authority and sway over the business as the primary policymaker. This great power and influence is called CEO power (Hamidlal & Harymawan, 2021). Investors can see CEO share ownership as a signal that the CEO has interests that are aligned with theirs and will act to protect the firm value.

Another factor that can affect company performance is CEO duality. The condition where a person holds two important positions in a company, namely as CEO and board of commissioners simultaneously, is called CEO duality (Maitriwira & Sudirgo, 2021). However, based on Law Number 40 of 2007, companies in Indonesia have to adopt a two-tier board system, namely a system that regulates the functions and roles of the board of commissioners and directors separately. As a consequence, many companies in Indonesia use a kinship system in the placement of these positions, namely the two positions are occupied by two people who have a close relationship, especially family. Therefore, CEO duality in Indonesia can be interpreted as the use of a kinship system in the placement of positions for the board of commissioners and directors (Azizah & Reskino, 2023; Laurencia & Meiden, 2020). CEO duality can also increase CEO dominance and reduce the independence of commissioners and give rise to agency problems that can provoke opportunistic behavior from the CEO (Dixit et al., 2024).

In carrying out their responsibilities as a leader, it is not uncommon for some CEOs to have excessive commitments and be involved in various activities outside the company. This is called CEO busyness. CEO busyness is the term used to describe CEOs who have multiple positions at multiple other firms, which limits their time and energy to concentrate on their primary business (Zakiya & Arifin, 2024).

This study aims to expand the literature related to CEO power, CEO duality, CEO busyness, and firm value by addressing the inconsistencies of previous research results. In response to the inconsistency of previous research results, this study hypothesizes that there is a combined influence of political connections and institutional ownership on the effect of CEO power, CEO duality, and CEO busyness on firm value as an answer to the inconsistency of previous research results. In addition, this study also adds newness in the form of research models, measurements, objects, and periods that can be used to assess the consistency of previous research results.

2. Hyphotesis Development

Based on agency theory, when agents own a large number of shares in the company they lead, their interests are aligned with the interests of other shareholders, namely to increase the value of the company. By having significant share ownership, when viewed from the perception of agency theory, CEOs tend to make decisions that benefit the company in the long term rather than just focusing on personal or short-term interests (Hamidlal & Harymawan, 2021). In addition, by owning most of the company's shares, CEOs have little interest in taking actions that are detrimental to the company. As a result, there is less chance of conflicts of interest between management and shareholders, which improves mutual trust and partnerships (Haq et al., 2023). High share ownership by CEOs can also be considered a positive signal by the market and shareholders.

Previous studies have presented empirical evidence that CEO power has a positive effect on firm value (Forughi & Rahimi, 2021; Hamidlal & Harymawan, 2021; Ting, 2021; Chu et al., 2023; Liang et al., 2024). Research conducted by Chu et al. (2023) who studied the effect of CEO power on the value of information technology companies in the United States (US) from 2007 to 2014. The results of their study showed that CEO power had a positive effect on firm value. Foroughi and Rahimi (2021), Hamidlal and Harymawan (2021), Liang et al. (2024), and Ting (2021) also showed the same research results.

H_1: CEO power has a positive effect on firm value.

Based on agency theory, independent supervision of agents is important in minimizing conflicts of interest and information asymmetry. CEO duality can cause CEOs to prioritize personal interests over shareholder interests, such as making self-interested decisions, taking excessive risks, and ignoring shareholder interests (Waheed & Malik, 2019; Wijethilake & Ekanayake, 2020; Roiston & Harymawan, 2022; and Voinea et al., 2022). CEO duality can also lead to less effective supervision of CEO performance. The board of commissioners will be less effective in overseeing management performance because the CEO has full control over the board agenda and decision-making process (Wicaksono, 2022). CEO duality will also create agency problems and affect company performance (Khatib et al., 2021).

Previous studies provide empirical evidence that CEO duality negatively affects firm value (Karim et al., 2020; Ullah et al., 2020; Wijethilake & Ekanayake, 2020; Mubeen et al., 2021; Bukari et al., 2024). Research conducted by Bukari et al. (2024) examines the effect of CEO duality on firm value. This study uses a quantitative research methodology sourced from data from 362 manufacturing companies from Sub-Saharan Africa from 2010 to 2022 and show that CEO duality has a negative effect on firm value. Karim et al. (2020), Ullah et al. (2020; Wijethilake and Ekanayake (2020); Mubeen et al. (2021) also showed the same research results.

H_2: CEO duality has a negative effect on firm value.

Conflicts of interest occur when agents fail to operate entirely in the principal's best interests, according to agency theory. In the case of CEO busyness, CEOs are motivated to maximize their personal gain, which tends to be inconsistent with the interests of the companies they lead (Kim, 2022). CEOs who hold multiple positions tend to focus on other companies that are more profitable or that give them more control. This can cause them to ignore the interests of the companies they lead, such as suboptimal decision making, lack of focus on long-term strategy, or even unfair allocation of resources. CEO busyness can also lead to a lack of focus and dedication to one company.

Previous studies provide empirical evidence that CEO busyness has a negative effect on firm value (Saleh et al., 2020; Ricky et al., 2022; Trinugroho et al., 2023; Anas et al., 2023; Lee & Hooy, 2024). Research conducted by Anas et al. (2023) analyzed the effect of CEO busyness on firm performance. This study used 268 companies listed on the IDX for the period covering 2014 to 2017 and showed that CEO busyness has a negative effect on firm performance. Saleh et al. (2020); Ricky et al. (2022); and Trinugroho et al. (2023); and Lee and Hooy (2024) also showed the same research results.

H_3: CEO busyness has a negative effect on firm value.

Politically connected firms typically have significant agency costs, according to agency theory. CEO political connections have the potential to weaken the positive effect of CEO power on firm value because CEOs with strong political ties tend to focus more on external interests than on the interests of the company. Not only that, board monitoring is a crucial tool in agency theory for ensuring that agents behave in the best interests of shareholders. However, with CEO duality weakening the separation of powers between the CEO and the board, and coupled with political connections that allow the CEO to have greater influence, board monitoring becomes less effective. Political connections can also exacerbate the negative impact of CEO busyness because CEO who is involved in many positions tends to be influenced by external pressures from his political connections rather than by the internal needs of the company; (Cao et al., 2017; Sun & Zou, 2021; and Liu et al., 2023).

Previous studies have presented empirical evidence that political connections have a negative effect on firm value (Iqrasari et al., 2020; Supatmi et al., 2021; Islam et al., 2023; Amin & Cumming, 2023; and Ngo & Ha, 2024). Iqrasari et al. (2020) tested and analyzed the effect of political connections on firm value and used all state-owned companies listed on the IDX for the period 2017-2019 as the population. The results of the study showed that political connections had a negative effect on firm value. The same results were also found in studies conducted by Supatmi et al. (2021); Amin and Cumming (2023), Islam et al. (2023); and Ngo & Ha (2024).

H_{4a}: Political connections weaken the positive effect of CEO power on firm value.

H_{4b}: Political connections strengthen the negative effect of CEO duality on firm value.

H_{4c}: Political connections strengthen the negative effect of CEO busyness on firm value.

Institutional ownership can lessen the conflict of interest between agents and principals, according to agency theory. In Indonesia's energy sector, which has complex regulations and market dynamics, institutional ownership can be key in ensuring that CEO power is used wisely, maintaining a balance between risk taking and corpo-rate profits, and increasing corporate value (Yahya et al., 2024). In addition, institutions that own large shares usually have the power to influence company policies, including monitoring CEO duality. This can ensure that even though the CEO has great power in decision-making, there is still sufficient control from outside parties to avoid making decisions that only benefit certain parties or conflict with the interests of other shareholders (Qin et al., 2016; Li et al. (2017); Duppati et al. (2023). Institutional ownership can also function as a monitor that ensures that busy CEOs do not neglect their main duties in the company.

Previous studies have presented empirical evidence that institutional ownership has a positive effect on firm value (Daryaei & Fattahi, 2020; Doğan, 2020; Duppati et al., 2023; Widodo et al., 2023; Yahya et al., 2024). Widodo et al. (2023) tested and analyzed institutional ownership on firm value that used agricultural sector companies on the IDX during 2018-2020 as the population. The results of the study showed that institutional ownership had a positive effect on firm value. The same results were also found in studies conducted by Daryaei & Fattahi (2020; Doğan (2020); Duppati et al., (2023); and Yahya et al. (2024).

H_{5a}: Institutional ownership strengthen the positive effect of CEO power on firm value.

H_{5b}: Institutional ownership weaken the negative effect of CEO duality on firm value.

H_{5c}: Institutional ownership weaken the negative of CEO busyness on firm value.

3. Data and Methods

The type of research used is explanatory research with a quantitative approach. Meanwhile, the method used is a causal study. The data source in this study was obtained from secondary data obtained from the company's annual report. Secondary data in this study were obtained by accessing the annual reports of energy companies on the official IDX website (2019-2023) which were obtained through the website www.idx.co.id.

The population of the number of energy companies listed on the IDX is 88 companies. The sampling technique used is non-probability sampling. The type of non-probability sampling choosen in this study is purposive sampling. The criteria used to determine the sample in this study are as table 1.

Table 1. Sample Selection Criteria

Research Sample Criteria	Total
Population of energy companies listed on the IDX in 2019-2023	88
Reduction of sample criteria 1: Energy companies that have been delisted on the IDX during the period 2019-2023	(5)
Reduction of sample criteria 2: Companies with annual and sustainability reports that cannot be accessed	(30)
Reduction of sample criteria 3: Companies that do not present complete data required for research variables	(17)
Number of companies that meet the criteria	36
Total research sample during the period 2019-2023	180

Based on the sample selection criteria (table 1), the number of research samples used in this study was 180 energy companies. In this study, data collection was carried out using documentation techniques.

The dependent variable used in this study is firm value. Then, the independent variables used in this study are CEO power, CEO duality, and CEO busyness. The moderating variables used in this study are political connections and institutional ownership. The variable measurment is presented in table 2.

The hypothesis testing of this study was conducted using panel data regression analysis and Moderated Regression Analysis (MRA). Panel data regression analysis is used to analyze the effect of independent variables on dependent variables, while MRA is used to examine whether moderating variables can strengthen or weaken the effect of independent variables on dependent variables. The statistical tool that will be used in this study is Econometric Views (Eviews) version 12. The regression equation used is:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e_{it}$$

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 Z_{1it} + \beta_5 Z_{2it} + \beta_6 (X_{1it}{*}Z_{1it}) + \beta_7 (X_{2it}{*}Z_{1it}) + \beta_8 (X_{3it}{*}Z_{1it}) + \beta_9 (X_{1it}{*}Z_{2it}) + \beta_{10} (X_{2it}{*}Z_{2it}) + \beta_{11} (X_{3it}{*}Z_{2it}) + e_{it}$$

Where: Y= Firm value; α= Constant; β= Regression coefficient; X_1= CEO power; X_2= CEO duality; X_3= CEO busyness; Z_1= Political connections; Z_2= Institutional ownership

Table 2. Variabel Measurement

Variable	Measurement
Firm Value (FV)	Tobin's Q = [Total book value of debt + (Share price x number of shares outstanding)]/Total book value of assets
CEO Power (CP)	Percentage of shares owned by the CEO in the company
CEO Duality (CD)	Binary indicator that is equal to 1 if the CEO has a close relationship (spouse, parents, siblings, children, in-laws, grand-children, nephews, and others) with the board of commissioners
CEO Busyness (CB)	Dummy variable, which was coded 1 if the CEO held more than one po-sition in several other companies, and 0 otherwise
Political Connections (PC)	Dummy variable, which is coded 1 if the CEO has been or is a member of a political party, representative council, deliberative assembly, regional representative, international organization, ministry, or regional head, and 0 otherwise
Institutional Ownership (IO)	IO= Number of shares owned by institutions/ Number of shares out-standing

4. Result

Panel Data Regression Model Selection

Based on the results of the Chow test in table 3, the probability cross-section Chi-square value is greater than the significance value, which is 0.06 > 0.05. Thus, the appropriate temporary regression model to use in this study is the Common Effect Model (CEM). The next test that must be done is the Lagrange Multiplier (LM) test.

Table 3. Chow Test Results

	Statistic	d.f.	Prob.
Cross-section F	1.226488	(35.139)	0.204
Cross-section Chi-square	48.443776	35	0.065

Table 4. LM Test Results

	Cross-section	Test Time	Hypothesis	Both
Breusch-Pagan	11.01695 (0.0009)	0.394415 (0.5300)		11.41137 (0.0007)

Based on the results of the LM test in Table 4, the Both Breusch-Pagan value is smaller than the significance value, which is 0.00 < 0.05. Thus, the final regression model that is appropriate to use in this study is Random Effect Model (REM). Thus, there is no need to conduct a classical assumption test (Bell et al., 2019; Gujarati & Porter, 2009; Hijrawati et al., 2022).

Descriptive Statistical Analysis

Based on Table 5, the firm value (FV) variable shows the lowest value of 0.18 which occurred at PT Sumber Energi Andalan Tbk (ITMA) in 2020. This happened because in that year, ITMA's revenue decreased drastically, which was at IDR195.6 million. The highest value of 18.11 occurred at PT Transcoal Pacific Tbk (TCPI) in 2021. This happened because in that year, TCPI recorded several performance improvements, such as obtaining several coal transportation contracts, improving service quality, recording a net profit of IDR78.7 billion. The average value of 1.69 indicates that the shares of energy companies in Indonesia are overvalued.

Table 5. Descriptive Statistical Analysis Results

Variable	n	Min.	Max.	Mean	Std. Deviation
FV	180	0.18	18.11	1.69	2.39
CP	180	0.00	0.36	0.01	0.06
CD	180	0.00	1.00	0.16	0.37
CB	180	0.00	1.00	0.65	0.48
PC	180	0.00	1.00	0.07	0.26
IO	180	0.21	1.00	0.85	0.16

The CEO power (CP) variable shows an average value of 0.01 (1%) which means that CEO share ownership in Indonesian energy companies is still very low. The CEO duality (CD) variable shows an average value of 0.16 (16%). This shows that energy companies in Indonesia have acknowledged the necessity of the function of an independent board of commissioners in overseeing the performance of the board of directors. The CEO busyness (CB) variable shows an average value of 0.65 (65%). This shows that there are still many CEOs who divide their priorities, time, and energy across several companies.

The political connection (PC) variable shows an average value of 0.07 (7%) which indicates that very few CEOs in energy companies in Indonesia have ever been or are members of political parties, representative councils, deliberative assemblies, regional representatives, international organizations, ministries, or regional heads. The institutional ownership (IO) variable shows the lowest value of 0.21 which occurred at PT Humpuss Intermoda Transportasi Tbk (HITS) in 2023. This happened because in that year, HITS's net profit decreased by 30.56% compared to the previous year. The highest value of 1.00 indicates that there are several companies whose ownership is mostly owned by institutions. The average value of 0.85 (85%) shows that institutional share ownership in energy companies in Indonesia is very high.

Panel Data Regression Analysis

The results of the panel data regression analysis are presented in Table 6. Regression was conducted to analyze the influence of CEO power (CP), CEO duality (CD), CEO businessness (CB), political connections (PC) on firm value.

Table 6. Panel Data Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.741	0.079	22.156	0.000
CP	37.312	0.790	47.257	0.000
CD	-0.367	0.123	-2.991	0.003
CB	-0.776	0.099	-7.796	0.000
Effects Spesification				
Weighted Statistics				
R-squared				0.938
Adjusted R-squared				0.937
F-statistic				882.232
Prob (F-statistic)				0.000

In the results of the regression analysis, it is shown that the probability value of CEO power (CP) is 0.00 < 0.05 with a t-Statistic value of 47.257. Thus, CEO power has a positive and significant effect on firm value (FV) or it can be concluded that H_1 is accepted. Then, the probability value of CEO duality (CD) is 0.00 < 0.05 with a t-Statistic value of -2.991. Thus, CEO duality has a negative and significant effect on firm value or it can be concluded that H_2 is accepted. Finally, the probability value of CEO busyness (CB) is 0.00 < 0.05 with a t-Statistic value of -7.796. Thus, CEO busyness has a negative and significant effect on firm value or it can be concluded that H_3 is accepted.

Moderated Regression Analysis (MRA)

In the results of the regression analysis (table 7), it is shown that the probability value of the interaction of CEO power (CP) and political connections (PC) is 0.85 > 0.05. Thus, political connections are unable to moderate the effect of CEO power on firm value (FV) or it can be concluded that H_{4a} is rejected. Then, it is shown that the probability value of the interaction of CEO duality (CD) and political connections is 0.01 < 0.05 with a t-Statistic value of -0.832. Thus, political connections are able to strengthen the negative effect of CEO duality on firm value or it can be concluded that H_{4b} is accepted. Furthermore, it is shown that the probability value of the interaction of CEO busyness (CB) and political connections is 0.00 < 0.05 with a t-Statistic value of -0.185. Thus, political connections are able to strengthen the negative effect of CEO busyness on firm value or it can be concluded that H_{4c} is accepted.

Table 7. MRA Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.276	2.275	0.561	0.006
CP	31.854	42.926	0.742	0.459
CD	0.186	0.475	0.390	0.007
CB	-0.340	0.185	-1.840	0.008
PC	0.131	0.450	0.291	0.001
IO	0.326	2.320	0.140	0.009
CP*PC	-0.284	1.501	-0.189	0.850
CD*PC	-0.654	0.787	-0.832	0.007
CB*PC	-0.163	0.881	-0.185	0.003
CP*IO	2.854	42.882	0.067	0.947
CD*IO	1.111	0.353	3.149	0.002
CB*IO	0.060	0.409	0.148	0.002
Effects Spesification				
Weighted Statistics				
R-squared				0.9445
Adjusted R-squared				0.941
F-statistic				259.884
Prob (F-statistic)				0.000

In the results of the regression analysis, it is shown that the probability value of the interaction between CEO power and institutional ownership (IO) is 0.95 > 0.05. Thus, institutional ownership is unable to moderate the effect of CEO power on firm value or it can be concluded that H_{5a} is rejected. Furthermore, it is shown that the probability value of the interaction between CEO duality and institutional ownership is 0.00 < 0.05 with a t-statistic value of 0.067. Thus, political connections are able to weaken the negative effect of CEO duality on firm value or it can be concluded that H_{5b} is accepted. Then, it is shown that the probability value of the interaction between CEO busyness and institutional ownership is 0.00 < 0.05 with a t-Statistic value of 0.148. Thus, political connections are able to weaken the negative effect of CEO busyness on firm value or it can be concluded that H_{5c} is accepted.

5. Discusssion

CEO Power Has a Positive Effect on Firm Value

The results of the CEO power test on firm value show that CEO power has a positive effect on firm value. According to the study's findings, agency theory holds that when agents hold a sizable portion of the company they run, their interests align with those of other shareholders, specifically raising the firm value. By having significant share ownership, when viewed from the perception of agency theory, CEOs tend to make decisions that are beneficial to the company in the long term rather than just focusing on personal or short-term interests (Hamidlal & Harymawan, 2021). In addition, by owning most of the company's shares, the CEO has little interest in taking actions that are detrimental to the company. As a result, there is less chance of conflicts of interest between management and shareholders, which improves mutual trust and partnerships (Haq et al., 2023). The market and shareholders may view the CEO's large share holding as a sign of strength. This can save agency costs and increase investor trust in the company's management. (Alifah & Harto, 2021).

Shareholders can more easily monitor the performance of agents and demand accountability if the company's performance does not meet expectations. High share ownership can reduce the risk of adverse selection, namely the tendency of CEOs to hide important information from shareholders (Liang et al., 2024). A CEO's power increases with the number of shares they have in the company they run. The numerous difficulties encountered demonstrate that only CEOs with this power can quickly turn strategy into action, effectively manage procedures, and increase earnings in order to build long-lasting businesses and raise firm value (Hamidlal & Harymawan, 2021). The findings of this study are in line with studies conducted by Hamidlal and Harymawan (2021); Ting (2021; Foroughi and Rahimi (2021); Chu et al. (2023); and Liang et al. (2024) who found that CEO power has a positive effect on firm value.

CEO Duality Has a Negative Effect on Firm Value

The results of the CEO duality test on firm value show that CEO duality has a negative effect on firm value. The study's findings are consistent with agency theory, which holds that minimizing conflicts of interest and information asymmetry requires independent agent monitoring. According to agency theory, CEO duality can lead to CEOs putting their own interests ahead of those of shareholders by making self-serving decisions, taking unwarranted risks, and disregarding shareholder interests (Wijethilake & Ekanayake, 2020). CEO duality can also lead to less effective supervision of CEO performance. Because the CEO has complete control over the board's agenda and decision-making process, the board of commissioners will be less effective at monitoring management performance (Wicaksono, 2022). CEO duality will also create agency problems and affect company performance (Khatib et al., 2021).

Furthermore, firm value is considered to be maximized with optimal oversight measures such as divided leadership, outside directors, and board committees, according to agency theory. In the case of duality, the firm value is actually negatively affected (Wijethilake & Ekanayake, 2020). According to agency theory, managers may abuse their power during the decision-making process, which could make it difficult for the board to evaluate managers fairly in the case of duality. Agency theory, the primary theoretical framework that highlights the board's monitoring function, contends that in order to prevent managerial opportunism and embeddedness, the board should be independent of management (Jensen & Meckling, 1976). The duality leadership structure typically has a detrimental effect on performance when this independence is violated since it reduces the board's ability to effectively monitor management. The findings of this study are in line with studies conducted by Karim et al. (2020), Ullah et al. (2020); and Wijethilake and Ekanayake (2020); Mubeen et al. (2021); Bukari et al. (2024), who found that CEO duality has a negative effect on firm value.

CEO Busyness Has a Negative Effect on Firm Value

The results of the CEO busyness test on firm value show that CEO busyness has a negative effect on firm value. The agency theory, which holds that conflicts of interest occur when agents fail to act entirely in the principal's best interests, is supported by the study's findings. Due to their hectic schedules, CEOs are driven to maximize their own profits, which frequently conflict with the objectives of the organization they oversee (Kim, 2022). CEOs who hold multiple positions tend to focus on other companies that are more profitable or that give them more control. This can cause them to ignore the interests of the company they lead, such as suboptimal decision making, lack of focus on long-term strategy, or even unfair allocation of resources.

CEO busyness can also lead to a lack of focus and dedication to one company. CEOs tend not to have enough time to deeply understand the challenges and opportunities facing the company they lead and cannot provide effective leadership (Saleh et al., 2020). Lack of focus can also lead to an inability to build strong relationships with employees and shareholders, which can negatively impact morale and trust. CEO busyness can also lead to a decrease in overall productivity. Furthermore, according to agency theory, agents who have excessive priorities also have the potential to increase agency costs. These costs arise because shareholders must spend more resources to monitor and ensure that managers act in accordance with their interests (Khan & Mauldin, 2020). The findings of this study are in line with studies conducted by Saleh et al. (2020); Ricky et al. (2022); Anas et al. (2023); Trinugroho et al. (2023); Lee and Hooy (2024) which found that CEO busyness has a negative effect on firm value.

Political Connections Can Strengthen the Negative Effect of CEO Duality and CEO Busyness on Firm Value

The results of testing the variables of CEO power, CEO duality, and CEO busyness on firm value using the political connection moderation variable show that the political connection variable cannot moderate the effect of CEO power on firm value. However, the political connection variable can strengthen the negative effect of CEO duality and CEO busyness on firm value. The study's findings are consistent with agency theory, which states that companies with political connections typically have high agency costs. This is due to the fact that companies with political connections frequently encounter obstacles that divert them from their primary objective of increasing shareholder wealth (Amin & Cumming, 2023).

According to agency theory, one crucial tool for ensuring that agents behave in the best interests of shareholders is board of commissioner supervision. Board monitoring is less effective, though, since CEO duality weakening the division of authority between the CEO and the board and is combined with political connections that give the CEO more influence. Political connections can also exacerbate the negative impact of CEO busyness (Liu et al., 2023). A CEO who is involved in many positions tends to be influenced by external pressures from his political connections rather than by the internal needs of the company. This can lead to decisions that are not based on in-depth analysis of market conditions or company needs (Shira, 2024). As a result, the company's value will be negatively affected due to lack of attention and focus on long-term strategy. The findings of this study are in line with studies conducted by Iqrasari et al. (2020), Supatmi et al. (2021); Amin and Cumming (2023), Islam et al. (2023), Ngo and Ha (2024) who found that political connections have a negative and significant effect on firm value.

Institutional Ownership Can Weaken the Negative Effect of CEO Duality and CEO Busyness on Firm Value

The results of testing the variables CEO power, CEO duality, and CEO busyness on firm value using institutional ownership as a moderating variable show that institutional ownership variables cannot moderate the effect of CEO power on firm value. However, institutional ownership variables can weaken the negative effect of CEO duality and CEO busyness on firm value. The study's findings are consistent with the agency theory, which assumes that institutional ownership might lessen conflicts of interest between principals and agents. Because of their resources and experience, institutional investors can lower the risk of adverse selection and moral hazard (Yahya et al., 2024).

Institutions that own large shares usually have the power to influence company policies, including supervision of CEO duality. This can ensure that even though the CEO has great power in decision-making, there is still sufficient control from outside parties to avoid making decisions that only benefit certain parties or conflict with the interests of other shareholders (Duppati et al., 2023). Institutional ownership can also function as a supervisor to ensure that busy CEOs do not neglect their main duties in the company. Institutional ownership can put pressure on CEOs to prioritize their work in the company and ensure that they are not too involved in external activities that can reduce their effectiveness in leading the company (Widodo et al., 2023). The findings of this study are in line with studies conducted by Daryaei and Fattahi (2020), Doğan (2020), Duppati et al. (2023), Widodo et al. (2023), and Yahya et al. (2024) which found that institutional ownership has a positive and significant effect on firm value.

6. Conclusion and Suggestion

Conclusion

The findings of this study are that CEO power has a positive effect on firm value. Furthermore, this study also found that CEO duality and CEO busyness have a negative effect on firm value. Political connections can strengthen the negative effect of CEO duality and CEO busyness on firm value. Institutional ownership can weaken the negative effect of CEO duality and CEO busyness on firm value. The contribution of this study is the government as a consideration for making new policies related to the energy sector in Indonesia, especially in the aspect of firm value.

Suggestion

This study has limitations, namely the population used is only energy companies listed on the IDX during the period 2019 to 2023, which is 440 companies. The research sample is only 180 or only 41%. For further research, samples can be taken using different companies, both inside and outside the Indonesian context. In addition, further research can include variables related to the company's desired practices, such as the use of renewable energy or green technology innovation, to see how this affects company value.

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