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The role of multiple directorships in minimizing idiosyncratic risk due to the presence of large shareholders: Evidence from Indonesian Companies

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Abstract
This study aims to evaluate the role of multiple directorships in the relationship between large shareholders and idiosyncratic risk in Indonesian companies for 2017-2021. For estimating, the research model used dynamic panel data, and a two-step system GMM to overcome endogeneity problems. Idiosyncratic risk is data with high-frequency properties, while multiple directorships and long shareholders have low-frequency data eels; idiosyncratic risk was calculated using the single factor model and robustness test used the Fama-French Three Factor Model. Indonesia adheres to a two-tier system that separates the roles and functions of the Board of Directors and the Board of Commissioners. Besides that, the concentrated ownership structure of Indonesian companies can cause agency problems between large and small shareholders. The study results show that large shareholders can strengthen the relationship of busy directors to reduce idiosyncratic risk. As an implication, this research recommends increasing the role of multiple directorships in monitoring and predicting business conditions internally and externally to minimize interference from large shareholders which can cause expropriation due to agency problems, guided by the regulation of the number of several directors which must follow OJK Regulation Number 33/POJK. 04/2014.

Contribution/Originality/ In previous research, many studied the direct relationship of large shareholders and multiple directorships to idiosyncratic risk. However, no research has examined the role of multiple directorships on idiosyncratic risk. Two conflicting theories exist.on multiple directorships: the reputational hypothesis and the activity hypothesis.This study shows that multiple directorships support the reputational hypothesis, which can minimize idiosyncratic risks from large shareholders who prioritize personal interests.

Keywords: idiosyncratic risk, large shareholders, multiple directorships.

1. INTRODUCTION

Idiosyncratic risk can be controlled and is exclusive to the company because it consists of the company's operating strategy, financial policy, and investment strategy (Hatane et al., 2019). Idiosyncratic risk arises because of asymmetric information. Grossman and Stiglitz (1980) argue that agents obtain lower prices and high expected returns because agents have more private signals about the company than those owned by the public. Li et al. (2004) stated that high asymmetric information in emerging markets leads to high idiosyncratic risk.

The debate about idiosyncratic risk research starts with research carried out by Campbell et al. (2001), who demonstrated that the market average of Idiosyncratic risk has steadily increased over the last four decades as well as suggested that investors constantly adjust the portfolio to obtain the same degree of diversification due to an increase in the market average on the specific risk of a company. On the other hand, Goyal and Santa-Clara (2003) suggest a significant relationship exists between the market average of idiosyncratic risk and return in the cross-section. Their opinion was contradicted by research conducted by Bali et al. (2005), Wei and Zhang (2005), and Fink et al. (2011), which states that there is no significant relationship between idiosyncratic risk and return. The limited information hypothesis introduced by Merton (1986) suggests that investors are not protected by idiosyncratic risk due to limited information owned by investors related to other securities.

The research results on idiosyncratic risk are conflicting; several studies investigated the driving factors of idiosyncratic risk, as seen from the company side, such as reporting information, company characteristics, and corporate governance. Xu and Malkiel (2003) found that changes in volume and speed of dissemination of information and increase in the number of institutional owners or the company are the main reasons for each stock's increased volatility. Brown and Kapadia (2007) suggested that growth opportunities, profit margins, firm size, and Industry composition are related to an increase in idiosyncratic risk while Brandt et al. (2010) showed that the pattern of idiosyncratic risk becomes stronger and higher in stocks with more significant retail investor holdings.

The purpose of this research is to assess the moderating effect of multiple directorships and the influence of significant owners on idiosyncratic risk in Indonesian companies listed on the IDX between 2017 and 2021. The existence of large shareholders in Indonesian companies with concentrated ownership structures in the family can prevent tunneling or expropriation by controlling shareholders for personal gain (Pagano & Röell, 1998). The presence of large shareholders as monitoring and controlling will make controlling shareholders act as they should. Miller and Chen (2003)) suggest that large shareholders can contribute to the company, especially in making decisions for the company's progress.

One of the characteristics of companies in the Asian region, including Indonesia, is concentrated ownership of certain shareholders (Claessens et al., 2000). In companies with a concentrated ownership structure in one party with a larger number of ownership than other shareholders, a conflict of interest occurs between the controlling and non-controlling shareholders (La Porta et al., 1999). Utama and Utama (2014) stated that, in companies with concentrated ownership, agency problems arise due to the actions of controlling shareholders to obtain more accurate information about the company's business operations than minority shareholders.

Jensen and Meckling (1976) put forward that the ownership structure influences how decisions are made and will affect the risk in the company. Large shareholders are shareholders who have the power to control the company. Suppose the large shareholders in company management are only concerned with personal interests. In that case, the function of the large shareholders is as follows: monitoring and controlling are not carried out, which can increase the risk company.

Information previously owned by large shareholders becomes an advantage in stock transactions. Li et al. (2021) state that large shareholders have two conflicting effects affecting stock crash risk: monitoring and tunneling. In the monitoring effect, large shareholders will form alliances of interests based on trust to monitor management behavior. A consistent ownership structure provides residual ownership large enough for large shareholders. With the monitoring effect, then large shareholders under supervision can replace management which is detrimental to the company so that it will reduce the agency problem caused by the spread of equity, which will impact the risk of falling stock prices. Contrary to the tunneling effect, large company management shareholders will expropriate through their power as the largest shareholder. Thus, the impact is the fall in stock prices.

Li et al. (2021) examine the influence of existing information on large shareholders with stock crash risk in companies listed in China. A Chinese company is a company with a concentrated structure. The study found that the monitoring effect would be more dominant than the tunneling effect. The impact of the effect monitoring causes large shareholders to incur more incentive costs to monitor management.

In addition, Indonesian companies that adhere to a two-tier system separate the powers of the executive and non-executive boards. The Board of Commissioners is a supervisory board to review the Board of Directors' performance and all company activities. The purpose of supervision is that it is hoped that the Board of Directors can carry out the company's operational activities effectively and efficiently, reduce agency problems, and make the right decisions. Thus, in its implementation, public companies have at least two members of the Board of Commissioners by the provisions Section 108 Ayat (5) of Undang-Undang Nomor 40 Tahun 2007 concerning Perseroan Terbatas.

Haunschild and Beckman (1998) argue that multiple directorships are expected to be a means for companies to reduce uncertainty and facilitate access to resources to create cooperation, such as the exchange of information and knowledge so that it is hoped that companies can increase their competitive advantage and be able to face competition in the market and minimize risks that may occur within the company. In addition, multiple positions can improve corporate governance because of the Board of Commissioners' experience and knowledge. Multiple directorships are controversial because of the increased workload and whether various positions in one company with other related companies will be influential.

The study findings indicate that theexistence of large shareholders can increase the idiosyncratic risk that occurs in the company. Makhija and Patton (2004) stated that the greater the quantity of large shareholders, indirectly, the weaker the disclosure due to conflicts of interest, thus potentially increasing the company's risk. This is because large shareholders get higher benefits (shared benefits and direct benefits). Henceforth, with the role of busy directors, large shareholders and idiosyncratic risk are related, which suggests that the reputational theory is supported.

The remaining sections of the paper are arranged as follows. Session 1. Introduction, Session 2. Literature Review and Hypothesis Development, Session 3. Research Method, Session 4. Results, Session 5. Discussion, Session 6. Robustness Tests, Session 7. Conclusions, and Session 8. Limitation and Direction for Future Research.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Idiosyncratic Risk

Risks that can be diversified are special risks or idiosyncratic risks from within the company. The possibility of an idiosyncratic risk materializing can be decreased through diversification. Diversification to minimize risk or reduce risk depends on the correlation between stocks. Fu (2009) defines idiosyncratic risk as a unique and specific risk, so it is often referred to as firm-specific risk because the risks can be offset by the good things that happen in other companies.

The fundamental idea of idiosyncratic risk is a modern portfolio developed into the Capital Asset Pricing Model (CAPM) (Lintner, 1965; Mossin, 1966; Sharpe, 1964). An investor can look for an equilibrium point or an optimal portfolio when investing in a risky asset portfolio that follows the assets from the market portfolio stated in the CAPM theory. At an optimal equilibrium point, only systematic risk is considered, so idiosyncratic risk does not play a role in determining expected return and asset valuation because diversification can eliminate idiosyncratic risk efficiently and without any costs incurred. Markowitz (1991) suggests that, It is possible to minimize idiosyncratic risk in a well-diversified portfolio.

Alternative asset pricing models that can explain predicted returns on stocks are necessary because the Capital Asset Pricing Model is unable to account for company-specific characteristics. Alternative models of asset pricing have been proposed to clarify predicted stock returns because some related literature indicates that the CAPM is unable to account for the significance of company-specific factors. In pricing models, idiosyncratic risk is susceptible to factor loadings. Previous research has shown that using imperfect capital markets and under-diversification approaches can determine expected stock returns between countries by conducting idiosyncratic risk analysis on stock returns. In order to explain idiosyncratic risk's behavior and some of its possible drivers, research has focused on idiosyncratic risk explicitly. In their study, Rubin & Smith (2011) stated that because the circumstances of each organization are different, it is impossible to draw definitive conclusions about the factors that determine idiosyncratic risk so that because of variations in the company's circumstances, definitive judgments regarding the factors influencing idiosyncratic risk cannot be made.

2.2. Large Shareholders

In a company, there are two groups of shareholders, namely large shareholders and small shareholders. The company's ownership structure can have various forms and combinations (Anantharaman & Fang, 2012). Jensen and Meckling (1976) argue that ownership structure influences how business decisions are made and how management is monitored and compensated, which can significantly impact the company's risk. In companies with an ownership structure concentrated, ownership of the company can be focused on one particular party with a larger number of owners, known as large shareholders, in relation to other shareholders, causing the controlling shareholder to have a conflict of interest, namely the large shareholders and the shareholders on-controlling shares (La Porta et al., 1999).

Large shareholders are shareholders with a share composition larger than other shareholders, so large shareholders have rights in the company's management. Large shareholders can do monitoring and controlling of controlling shareholders so that they will not act which may harm minority shareholders. Lehmann and Weigand (2000) suggest that the existence of large shareholders can contribute to sound decision-making for the company and increase experience and professionalism in managing the company.

Attig et al. (2009) argue that the standard of corporate governance will increase with the involvement of large shareholders in the company's oversight. Demsetz and Lehn (1985) state larger shareholders are mostly there because of improved oversight and control. Shleifer and Vishny (1997) suggest that by keeping an eye on management and possessing enough voting power to put pressure on it, the presence of large shareholders can resolve agency issues between owners and managers.

Hope (2013) states that large shareholders have an important part of corporate governancebecause monitoring that actively involves large shareholders can hinder business decisions that may be considered less than optimal.

Similar to what was stated by Zhang et al. (2023) that the existence of large shareholders can mitigate the risks that occur in companies where the increase in the number of shares owned by large shareowners is related to the scope of insider trading

Indonesian enterprises often have a concentrated ownership structure with a small number of stockholders.; that is, most of the shares are owned by corporate groups, majority shareholders, or large shareholders (Claessens et al., 2000). Concentrated ownership can cause agency conflicts that shift into agency problems between large and small shareholders, opening agency conflicts between management and shareholders. The cause of agency problems is that large shareholders can take private benefits from the company by appointing people as management. This condition can motivate large shareholders to order management to take actions that only benefit large shareholders so that it can harm some small shareholders as minority shareholders. The same thing was also stated by Fan and Wong (2002), who noted that the existence of large shareholders as controlling shareholders can lead to expropriation by taking private benefits from transactions that transfer profits to other companies still under its control or influence company policy to personal uses.

H_1: Large shareholders have a positive effect on idiosyncratic risk

2.3. Multiple Directorships

Indonesia uses a two-tier system; OJK Regulation Nomor 33/POJK.04/2014, which restricts concurrent positions, including the board of commissioners, contains limitations for multiple directorships. This is due to the fact that commissioners non-executive roles and contributions in the two-tier system structure are crucial for supervising business operations. Reveal that increased capabilities, knowledge and expertise obtained from several boards can provide benefits to the original company even after considering the opportunity costs of several boards. In addition, multiple directorships are able to obtain information regarding more profitable investment options (Chou & Feng, 2019).

In the company, the board of commissioners plays a vital function as the oversight body. According to agency theory, a direction board in the supervisory function, or what is called a commissioner in ndonesia, is a crucial component of the control system that makes sure issues arising from the principal-agent relationship can be managed (Fama & Jensen, 1983; Pucheta-Martínez & Gallego-Álvarez, 2020). Meanwhile, resource dependency theory states that the board of commissioners plays a vital intermediary role between the business and the outside resources it need to operate at its best (Pucheta-Martínez & Gallego-Álvarez, 2020).

People who serve as non-executive directors or board commissioners on more than one board of another corporation are said to have multiple directorships (Chakravarty & Hegde, 2022). The condition of multiple directorships is common in Indonesia and is legal due to official government regulations. Fama and Jensen (1983) stated that building a reputation as a reliable supervisor is crucially motivated by the market for outside directors. Since then, a growing body of research has examined the advantages and disadvantages of holding multiple directorships under the reputational hypothesis, which contends that directors who serve on multiple boards accumulate experience and connections and can thus offer more insightful and knowledgeable advice (Field et al., 2013). In addition, their reputational incentives in the labor market also inspire them to become conscientious supervisors (Fama & Jensen, 1983; Masulis & Mobbs, 2011). Mbanyele (2020), directors with concurrent responsibilities have a critical role in enhancing complicated firms' performance, particularly in underdeveloped institutional contexts. Therefore, in order to reap the reputational benefits of having many designated direct principals, corporations typically choose their directors based on their standing, qualifications, and work history in the field.(Falato et al., 2014). Thus, directors who are busy can become good monitors through experience and reputational incentives..

H_2: Multiple directorships have a negative effect on idiosyncratic risk

2.4. Large Shareholders, Multiple Directorships, and Idiosyncratic Risk

Claessens et al. (2000) stated that there is a separation between company owners and managers in several Asian countries; it was found that Indonesia is characterized by highly concentrated ownership. The agency problem concept explains the connection between idiosyncratic risk and large shareholders. According to an agency problem type II, conflicts occur between majority shareholders and minority shareholders (Jensen & Meckling, 1976). The majority shareholders are categorized as large shareholders.

The existence of large shareholders who function as monitoring is expected to minimize the occurrence of idiosyncratic risk in the company. Jensen and Meckling (1976) state that supervision will be more intense with the largest shareholder as the controlling shareholder. Attig et al. (2009) support that large shareholders in a company can minimize risks because large shareholders carry out monitoring, which can improve corporate governance.Therefore, it is anticipated that the relationship between multiple directorships and major shareholders will lessen idiosyncratic risk. Multiple directorships are based on the reputational hypothesis, where a good reputation can minimize the risks due to the directors' experience and reputation (Fama & Jensen, 1983). A similar thing was also put forward by Elyasiani & Zhang (2015) who stated that companies with many director positions have a lower total risk due to the experience, knowledge and reputation accumulated with many positions held which can help many director positions to advise and monitor management more effectively to reduce idiosyncratic risk. Raithatha & Ladkani (2022) also stated that there is a tendency to benefit from having directors with various board positions because they will provide much needed expertise, resourcHaving directors with a range of board roles tends to be advantageous since they will offer much-needed resources, networks, and knowledge. These benefits can reduce the likelihood of idiosyncratic risk.es and networks and these advantages can minimize the occurrence of idiosyncratic risk.

H_3: Large shareholders strengthen the influence of multiple directorships in reducing idiosyncratic risk.

3. RESEARCH METHODS

3.1. Research Sample

Indonesian companies listed on the Indonesia Stock Exchange between 2017 and 2021 comprise the study's sample, with 1,510 observations from 302 companies. Companies that fall into the category of the financial sector are excluded.

3.2. Variables Measurement

Idiosyncratic risk and risk uncertainty are associated with volatility. In general, volatility is synonymous with risk as a symptom of market disturbances where prices are unreasonable and the capital market does not function properly. Traditionally, volatility is seen as synonymous with variance risk. Schwert (1991) stated that, in the capital market, there is a rise of volatility in the stock market as measured regarding the percentage alteration in price or the rate of return, which will provide opportunities for increased changes in share prices.

After that, the overall risk is annualized as a standard deviation of stock returns. Regression analysis was performed for each company's stock returns using the following model, which was based on the study's measurement model (Nadeem et al., 2019). Utilizing the standard deviation of the residual, idiosyncratic risk is calculated., which is then annualized according to the quantity of active trading days within the year of study (Nadeem et al., 2019; Sila et al., 2017)

$$R_{i,t} - R_{f,t} = \alpha_{i,t} + \beta_{i,t}\,(R_{m,t} - R_{f,t}) + \varepsilon_{i,t} \qquad (1)$$

$R_{i,t}$ is company daily returns, $R_{m,t}$ is daily market return, $R_{f,t}$ is the risk-free rate, and $\varepsilon_{i,t}$ It calculates the idiosyncratic risk of each company using the standard deviation. The measurement of idiosyncratic risk is also carried out by a robustness test using the Fama-French Three Factor, which is shown in Table 3.

Shareholders are declared large shareholders by classifying dispersed or concentrated ownership based on the percentage of direct share ownership or immediate (La Porta et al., 1999). Shareholders categorized as large shareholders are the number of shareholders who own at least 10% of the company's outstanding shares (Duygun et al., 2018; La Porta et al., 1999). Thomsen et al. (2006) stated high block holders where, in this study, it was meant to be large shareholders if they had more than 10% shares. The calculation of large shareholders is the percentage of the largest share ownership owned by the owner's largest stock (Zhou & Huang, 2016).

This study uses moderating variables that can strengthen or weaken the relationship between one variable and another. Due to Indonesia's two-tier system, The multiplr directorships are the moderating variable in this study. In previous studies, dual positions only indicated whether they existed. However, from Fich and Shivdasani (2006), The number of members of the Board of Commissioners who hold more than two posts is divided by the total number of members to form the multiple directorships..

$$MD_{i,t} = \frac{The\ number\ of\ members\ of\ the\ board\ of\ commissioners\ concurrently\ hold \geq 2\ positions}{Board\ of\ commissioners\ size} \quad (2)$$

The study's control variables include firm size (SIZE), firm age (AGE), leverage (LEV), Return on Assets (ROA), Volume Turnover (VT), and Industry (INDT). The log of all assets is used to compute SIZE. Logging company age is the difference between the age of the research period and the age of the company established. For leverage, we follow the method of Mitton (2002), namely.

$$LEV_{i,t-1} = \frac{Total\ Debt_{i,t}}{Book\ Value\ of\ Total\ Capital_{i,t}} \quad (3)$$

Income before extraordinary items divided by the book value of equity at the end of the fiscal year is known as Return on Assests (ROA) (Kim et al., 2015).

$$ROA_{i,t-1} = \frac{EBIT_{i,t-1}}{Total\ Assets_{i,t-1}} \quad (4)$$

Volume Turnover (VT) is the mean deviation of the monthly share turnover in year t from the monthly share turnover on average in year t-1.

$$VT_{i,t-1} = \frac{Trade\ Shares_{i,t}}{Outstanding\ Shares_{i,t}} - \sum_{t-1}^{t-1} \frac{Traded\ Shares_{i,t^n}}{Outstanding\ Shares_{i,t^n}} \quad (5)$$

Industry (INDT) is a dummy variable for manufacturing companies. Businesses classified as manufacturing companies are assigned a value of 1, while businesses classified as non-manufacturing companies are assigned a value of 0. A manufacturing company is one of the companies that have the characteristics of uncertain expected returns (Mazzucato & Tancioni, 2008).

3.3. Analysis Method

The data were analyzed using the fixed effect and dynamic panel-data estimation, two-step GMM system. The fixed effects model is appropriate when we focus on a specific firm characteristic ($c_{i,t}$) and therefore $e_{i,t} = v_{i,t} + c_{i,t}$ with $v_{i,t}$ being a time-varying error component.

The selection of estimates using the dynamic panel-data estimation two-step GMM system is due to data limitations with a small sample size. Blundell and Bond (1998) stated that when the sample size is small, asymptotic standard errors can cause bias. One of the appropriate methods to overcome this bias is the dynamic panel-data estimation, two-step system GMM (Windmeijer, 2005).

Arrelano-Bond test, Sargan test, and unbiased test are included in the two-step GMM approach for dynamic panel data estimation. The Arrelano-Bond test is carried out to test consistency while The purpose of the Sargan test is to determine the validity of using instrument variables that exceed the number of estimated parameters (overidentifying restrictions). The unbiased test is used to determine whether the GMM model produces unbiased estimates.

Panel research data conducted by Okoyeuzu et al. (2021) which is estimated using Generalized Less Square (GLS) which is a statistical panel, states the GLS estimator uses data that is quasi-demeaned, it results in a correlation between the dependent variable and quasi-demeaned residuals., thus making the GLS estimator biased and inconsistent resulting in poor selection. The right way is with system-GMM.

To avoid the endogeneity problem, the GMM technique was chosen due to the long research period and to evaluate endogeneity problems due to idiosyncratic risk over five years, a forecast study used the dependent lagged value on the regressor. Wintoki et al. (2012) declare that if a simultaneous link is established where X influences Y and Y impacts X, then the endogeneity problem cannot be solved in panel data estimation utilizing the pooled least squares, fixed effects, and random effect regression methods. Therefore, it is necessary to test the instrumental

variables in solving this simultaneous problem. However, this approach has the disadvantage that it can produce bias in limited sample sizes (Blundell & Bond,1998), so it needs to be estimated using the GMM.

Equation (6) and (7) examine the direct relationship between large shareholders and multiple directorships and idiosyncratic risk. Meanwhile, equation (8) examines the relationship of moderating variables. Equation (9) examines all variables in the research.

$$IR_{i,t} = \alpha + \beta_1 IR_{i,t-1} + \beta_2 LS_{i,t-1} + \beta_3 SIZE_{i,t-1} + \beta_4 AGE_{i,t-1} + \beta_5 LEV_{i,t-1} + \beta_6 ROA_{i,t-1} + \beta_7 VT_{i,t-1} + \beta_7 INDT_{i,t-1} + \varepsilon_{i,t} \quad (6)$$

$$IR_{i,t} = \alpha + \beta_1 IR_{i,t-1} + \beta_2 MD_{i,t-1} + \beta_3 SIZE_{i,t-1} + \beta_4 AGE_{i,t-1} + \beta_5 LEV_{i,t-1} + \beta_6 ROA_{i,t-1} + \beta_7 VT_{i,t-1} + \beta_7 INDT_{i,t-1} + \varepsilon_{i,t} \quad (7)$$

$$IR_{i,t} = \alpha + \beta_1 IR_{i,t-1} + \beta_2 LS_{i,t-1} + \beta_3 LS_{i,t-1} * MD + \beta_4 SIZE_{i,t-1} + \beta_5 AGE_{i,t-1} + \beta_6 LEV_{i,t-1} + \beta_7 ROA_{i,t-1} + \beta_8 VT_{i,t-1} + \beta_9 INDT_{i,t-1} + \varepsilon_{i,t} \quad (8)$$

$IR_{i,t}$: Idiosyncratic risk is the risk of a company *i* at the end of period *t*.
$IR_{i,t-1}$: Idiosyncratic risk is the risk of a company *i* at the end of period *t-1*.
$LS_{i,t-1}$: Large Shareholders of a company *i* at the end of period *t-1*.
$MD_{i,t-1}$: Multiple directorships of a company *i* at the end of the *t-1* period.
$SIZE_{i,t-1}$: The company size in company *i* up to the end of the *t-1* period.
$AGE_{i,t-1}$: The company's age in company *i* up to the end of the *t-1* period.
$LEV_{i,t-1}$: Leverage on the company *i* until the end of period *t-1*.
$ROA_{i,t-1}$: Return on assets the company *i* until the end of period *t-1*.
$VT_{i,t-1}$: Volume turnover *of* the company *i* until the end of period *t-1*.
$INDT_{i,t-1}$: Dummy variable, manufacturing company: 1 and non-manufacturing: 0.
α : Constant.
β : The coefficients of the explanatory variables.
$\varepsilon_{i,t}$: Residual as idiosyncratic risk.

4. RESULTS

4.1. Descriptive Statistics

Table 1 provides descriptive information. Idiosyncratic risk is the dependent variable in this research. The residual standard deviation of the annualized daily stock price data serves as a proxy for idiosyncratic risk (Nadeem et al., 2019). The spread of the data is seen from the standard deviation. For idiosyncratic risk it has a standard deviation of 0.038. The average value (mean) shows 0.043, which is on a percentage scale, the risks the average company faces are 4.3%. French and Roll (1986) stated that the stock average daily variance due to mispricing of the stock return variance affects asset price volatility during trading and non-trading hours. However, there will still be differences in variance during trading and non-trading because there is different information at the two times. The analysis results show that the dominant cause of differences in information is because of the information that appears; most of it is private information.

Table 1. Statistic Descriptive

	N	Mean	Median	Maximum	Minimum	Std. Deviation
$IR_{i,t}$	1.510	0.043	0.030	0.091	0.007	0.038
$LS_{i,t-1}$	1.510	0.631	0.648	0.997	0.174	0.201
$MD_{i,t-1}$	1.510	0.253	0.236	1	0	0.262
$SIZE_{i,t-1}$ (Rp Million)	1.510	4.298.399	536.303	156.724.465	206.196	13.533
$SIZE_{i,t-1}$ (ln Total Asset)	1.510	29.089	24.705	32.686	26.052	23.328
$AGE_{i,t-1}$ (year)	1.510	34.818	33	114	3	17.189
$LEV_{i,t-1}$	1.510	0.454	0.464	0.973	0.007	0.237
$ROA_{i,t-1}$	1.510	0.029	0.025	0.704	-0.679	0.094
$VT_{i,t-1}$	1.510	0.282	0.827	7.073	0.004	3.596
$INDT_{i,t-1}$	1.510	0.331	0	1	0	0.476

The average value of the large shareholders of the 302 companies over the five years of research from 2017 to 2021 is 63.1%. The ownership is dominant, with a total share of 63.1% on average, both individual and company owners. The high number of shares owned by controlling shareholders indicates that the corporate ownership structure in Indonesia is very concentrated. This is as was stated by Claessens et al. (2000). With such a large percentage of ownership, it will provide greater control rights for its controlling shareholders to organize and engage in decision-making and policies within the company.

In Indonesia, the supervisor and executor have different responsibilities and functions according to a two-tier system. Oversight of the company is held in full by the Board of Commissioners, one of the company organs that has a vital role as supervisor. The average (mean) is 25.3% of companies in the sample have a Board of Commissioners with multiple positions. 33/POJK.04/2014, which regulates concurrent positions on the Board of Commissioners in Indonesian companies, states the maximum limit is three. Still, it can reach five if not using a quota to concurrently serve as a member of the Board of Directors (quota substitution).

The average value of assets owned by the company is Rp. 4 trillion. The minimum asset value is Rp. Two hundred six billion, and the maximum asset value is Rp. 156 trillion. There is a high distribution between one company and another in this study's sample, so there is a large imbalance in the total assets of one company and other companies. The average company has a lifespan of 34-35 years. The company's average leverage is 0.454, which means that, on average, 45.4% of the company's total assets are financed by debt. Mark a maximum of 97.3% and a minimum value of 0.007 or equivalent to 0.7%. ROA is a proxy for measuring profitability. ROA averages 0.029 with a standard deviation of 0.094. That displays the mean sample generally has reasonably low profitability. The maximum value of ROA is 0.704, and the minimum value is -0.679. INDT is a dummy variable for industry categories. Companies with a value of 1 are included in manufacturing companies, and conversely, a value of 0 includes non-manufacturing companies. The average value for the whole is 0.331, with a standard deviation of 0.476.

5. DISCUSSION

The results of the research hypothesis test are shown in Table 2. The results showed that large shareholders positively affect idiosyncratic risk, which means that they support Hypothesis 1. The higher the large shareholders, the higher the idiosyncratic risk that occurs. Makhija and Patton (2004) stated that the higher the large shareholders indirectly weaken disclosure due to conflict interests that potentially increase the company's risk. The results of this study are also supported by Utama and Utama (2014), that with the existence of large shareholders, the higher the possibility of the occurrence of expropriation in the transfer of cash flows, assets, or shares.

Table 2. Results

	Fixed Effect			Dynamic Panel-Data Estimation, Two-Step System GMM		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
$IR_{i,t-1}$				1.934** (0.034)	2.684*** (0.000)	2.958** (0.049)
$LS_{i,t-1}$	1.352** (0.051)		1.158* (0.087)	1.782** (0.045)		1.967** (0.035)
$MD_{i,t-1}$		-2.060** (0.039)			-2.457** (0.014)	
$MDLS_{i,t-1}$			-1.805** (0.005)			-1.876** (0.003)
$SIZE_{i,t-1}$	1.346*8 (0.032)	3.972*** (0.000)	2.110** (0.037)	1.367** (0.045)	2.789*** (0.005)	2.595** (0.033)
$AGE_{i,t-1}$	-0.656 (0.511)	4.851*** (0.000)	-0.281 (0.457)	-0.210 (0.833)	2.241*** (0.002)	-0.876 (0.381)
$LEV_{i,t-1}$	1.819* (0.069)	1.358 (0.174)	1.897** (0.058)	1.998* (0.062)	1.111 (0.191)	1.724** (0.046)
$ROA_{i,t-1}$	-1.419 (0.156)	-1.078 (0.281)	-1.493 (0.135)	-1.256 (0.185)	-2.139 (0.330)	-1.158 (0.247)
$VT_{i.t-1}$	1,866* (0.092)	1.913 (0.221)	0.318 (0.220)	1.568* (0.087)	1.249 (0.217)	0.496 (0.268)
$INDT_{i.t-1}$	1.117* (0.062)	1.739* (0.078)	2.931** (0.003)	1.519* (0.071)	1.142* (0.063)	2.488** (0.005)
R^2	0.256	0.278	0.309			
AR (1)				0.316	0.222	0.381
AR(2)				0.574	0.478	0.445
Conclusion				*No misspecification*	*No misspecification*	*No misspecification*
Sargan/Hansen (*Chi-Square*)				0.354 *Valid*	0.511 *Valid*	0.224 *Valid*
Observation	1.510	1.510	1.510	1.510	1.510	1.510
p value : *** 1%. ** 5%, * 10%						

IR = idiosyncratic risk, namely a proxy for measuring company risk where IR is the standard deviation of the residual regression of daily stock price data (Single Factor Model). LS: large shareholders. MD: Multiple directorships. MDLS: Moderating large shareholders and multiple directorships SIZE= company size of total assets. AGE = company age calculated from the year the company was founded up to the research period. LEV = leverage, namely total debt divided by the book value of total capital, BS = the number of commissioners in one company. VT = turnover volume. INDT: dummy variable, manufacturing firm: 1 and non-manufacturing: 0.

The results of this study are in contrast to Lehmann and Weigand (2000), who state that the high large shareholders will contribute to good decision-making for the company. Shleifer and Vishny (1997) state that the greater the ownership of shares, the tendency to hedge to reduce risk. This is because the owner wants to keep his level of wealth. Attig et al. (2009) support that the existence of large shareholders in the company can minimize the risk because large shareholders do monitoring which can increase corporate governance.

Share ownership in developing country companies, one of which is Indonesia, is controlled by the controlling shareholder because of the nature of the ownership pyramids and cross-ownership (Claessens et al., 2000; Faccio et al., 2021; La Porta et al., 1999). Ownership held by large shareholders enables the use of power to determine financial policy and company operations. Jensen and Meckling (1976) state that the largest shareholder as the controlling shareholder will be more intense in supervising. The same was also found by Auvray and Brossard (2012) that ownership with a high supervision concentration will be better.

Leech and Leahy (1991) stated that company performance is assessed from the role of concentration of ownership because of the shared ownership structure. Distributed and concentrated ownership have different functions. Ownership is dispersed; no individual or group has the right or implements it to control and coerce to maximize profits. In contrast, controlling shareholders will effectively control the company (Claessens et al., 2000). La Porta et al. (1999) argue that large shareholders will make controlling shareholders.

Agency theory shows that a division of the company's ownership and control will increase the possibility of agency conflict—Claessens et al.(2000) state that Asia's businesses are among them. The features of concentrated ownership are present in Indonesia. Agency conflict is faced by companies with concentrated ownership, one of which is large shareholders who become controlling shareholders with shareholders minority. Agency problems arise because large shareholders have greater control over the excessive use of company policies for personal gain.

Direct relationships with multiple directorships can reduce idiosyncratic risk. The nation of Indonesiawith a two-tier system, where roles and functions are separated from the Board of Directors and Dean of Commissioners. Lu et al. (2013) stated that multiple directorships in several companies could diversify the experience of a board and be more helpful in increasing the efficiency of decision-making. The results of this study are in contrast to those of Pandey et al. (2022), which state that companies with better growth opportunities should be managed by a board that does not have multiple positions in other companies simultaneously. Boards that are overly busy find it difficult to devote enough time and attention to overseeing the business, and as a result, they frequently miss board meetings (Jiraporn et al., 2009). The Board may miss out on a lot of good business prospects if they are not committed (Ahn et al., 2010). Therefore, multiple directorships can affect the idiosyncratic risk that occurs in a company.

The role of multiple directorships can minimize the occurrence of idiosyncratic risk. Core et al. (1999) state that the Board of Commissioners can provide adequate supervision over each company if they hold or have three or more company positions because of their reputation and experience. This demonstrates that with the role of the Board of Commissioners, it can minimize expropriation by large shareholders due to a conflict of interest. Multiple directorships will have an adverse effect on the commitment they have given and affect reducing the quality of work provided to each company. Méndez et al. (2017) stated that if multiple directorships held positions concurrently in other companies, it could result in lower achievement based on the information released by the company.

6. ROBUSTNESS TEST

We are using the approach of Ang et al. (2009) and Fu (2009) for the idiosyncratic risk calculation method with the direct method of the Fama-French Three Factor Model. Estimating idiosyncratic risk with the Fama-French By including the size and value elements as extra systemic factors, the Three Factor Model is created..

Table 3. Robustness Test

	Fixed Effect			Dynamic Panel-Data Estimation, Two-Step System GMM		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
$IR_{i,t-1}$				1.415** (0.047)	2.007*** (0.000)	2.680** (0.056)
$LS_{i,t-1}$	1.212** (0.032)		1.114* (0.089)	1.330** (0.034)		1.966** (0.050)
$MD_{i,t-1}$		-1.972** (0.049)			-2.231** (0.021)	
$MDLS_{i,t-1}$			-1.875**			-1.381**

			(0.004)			(0.002)
$SIZE_{i,t-1}$	1.663** (0.010)	2.371*** (0.000)	2.375** (0.049)	1.425** (0.057)	2.727*** (0.005)	2.957** (0.039)
$AGE_{i,t-1}$	-0.717 (0.473)	4.404*** (0.000)	-0.292 (0.368)	-0.206 (0.836)	2.236*** (0.002)	-0.873 (0.383)
$LEV_{i,t-1}$	2.015** (0.044)	2.077 (0.382)	2.127** (0.034)	1.967* (0.070)	1.106 (0.195)	1.725** (0.048)
$ROA_{i,t-1}$	-1.217 (0.151)	-2.562 (0.396)	-2.592 (0.198)	-1.252 (0.189)	-2.135 (0.345)	-1.157 (0.279)
$VT_{i,t-1}$	1.853* (0.077)	1.057 (0.278)	0.449 (0.215)	1.505* (0.071)	1.006 (0.219)	0.453 (0.237)
$INDT_{i,t-1}$	1.587* (0.052)	1.078* (0.083)	2.959** (0.002)	1.625* (0.061)	1.454* (0.091)	2.121** (0.005)
R^2	0.362	0.383	0.396			
AR (1)				0.317	0.220	0.283
AR(2)				0.577	0.492	0.380
Conclusion				*No misspecification*	*No misspecification*	*No misspecification*
Sargan/Hansen (*Chi-Square*)				0.352 *Valid*	0.506 *Valid*	0.245 *Valid*
Observation	1.510	1.510	1.510	1.510	1.510	1.510

p value : *** 1%, ** 5%, * 10%

IR = idiosyncratic risk, a proxy for measuring company risk, where IR is the standard deviation of the residual regression of daily stock price data (Single Factor Model). LS: large shareholders. MD: Multiple directorships. MDLS: Moderating large shareholders and multiple directorships SIZE= company size of total assets. AGE = company age calculated from the year the company was founded up to the research period. LEV = leverage, namely total debt divided by the book value of total capital, BS = the number of commissioners in one company. VT = turnover volume. INDT: dummy variable, manufacturing firm: 1 and non-manufacturing: 0.

The results of this study are consistent, where large shareholders have a positive effect on idiosyncratic risk, and multiple directorships have a negative impact. The role of multiple directorships as a moderating variable can minimize the occurrence of idiosyncratic risk, which means it supports the reputational hypothesis.

7. CONCLUSION

Indonesian companies with concentrated ownership cause agency problems from large and small shareholders. Large shareholders who act as supervisors cannot be adequately implemented due to personal interests, which can increase idiosyncratic risk. Thus, in corporate management, the role of multiple directorships as the supervisory Board can minimize idiosyncratic risk. This study evaluates the direct relationship between large shareholders and idiosyncratic risk and multiple directorships as a moderating variable in companies listed on the Indonesian Stock Exchange for 2017-2021.The study results show that large shareholders can strengthen multiple directorships to reduce idiosyncratic risk, which means the role of multiple directorships supports the reputational hypothesis. Multiple directorships that occur in Indonesia are legal considering that there are official government regulations, namely POJK regulation no. 33/POJK.04/2014 so that the existence of multiple directorships provides more benefits in terms of monitoring and advice to management regarding risks occurring in the company.

8. LIMITATION AND DIRECTION FOR FUTURE RESEARCH

A limitation in this research is that it does not separate control rights and cash flow rights. The author suggests for future research the role of multiple directorship by comparing its implementation in countries that implement a one-tier system with a two-tier system, besides that it can not only be studied in terms of position but also in terms of gender and age.

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Institutional Review Board Statement: On April 3, 2023, the University of Indonesia's Ethical Committee gave its clearance for this study (Nomor: PENG-001/UN2.RST/PPM.00.00/2023).

Transparency: The report offers an honest, accurate, and transparent explanation of the investigation, the authors attest; no important aspects of the study have been left out, and any differences from the planned study have been described. When writing, this study adhered to all ethical guidelines.
Competing Interests: Declared to be free of conflicting interests are the authors.
Authors' Contributions: Each author made an equal contribution to the study's idea and design. Every author has reviewed and approved the published version of the work..

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PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

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PAGE 11

PAGE 12

PAGE 13

PAGE 14

PAGE 15