Effect of Net Profit Margin and Company Size on Risk Disclosure

ABSTRACT

Net Profit Margin is part of the profitability ratio, which is a ratio to assess the company’s ability to seek profit. Company size is a value that shows the size of the company. Both of these factors have a relationship with risk disclosure. This study aims to determine the Net Profit Margin, Company Size, Risk Disclosure, and the effect of Net Profit Margin and Company Size on Risk Disclosure in Property and Real Estate Companies. Registered with the ISSI 2016-2018 period. This study uses a quantitative approach. The data used is secondary data, analyzed using correlation analysis and multiple linear regression. The sample in this study amounted to 84 annual financial reports. The results showed that Net Profit Margin, Company Size, and Risk Disclosure were in the poor, suitable, and adequate categories, respectively. The partial calculation results show that the Net Profit Margin has no effect on Risk Disclosure, but Company Size affects Risk Disclosure. Meanwhile, the simultaneous calculation results show that Net Profit Margin and Company Size have a significant effect on Risk Disclosure with a value of 13.6%, while other factors explain the remaining 86.4% outside of this study, such as the ratio leverage, liquidity ratios, and product or industry diversification.

Keywords: Net, Profit, Margin, Size, Company, Disclosure, Risk

INTRODUCTION

Indonesia is a country with a majority Muslim population. Various kinds of sharia-based business sectors have sprung up, including in the investment sector, namely the Islamic capital market. An Islamic capital market is a place or market that can trade various financial instruments (securities) in long, medium and short term periods, which can be in the form of debt or equity. As a benchmark for the progress of the Islamic capital market in Indonesia, it begins with launching the Indonesian Sharia Stock Index (ISSI). The Indonesian Sharia Stock Index (ISSI), launched on May 12, 2011, is a composite index of Islamic stocks listed on the Indonesia Stock Exchange. ISSI is an indicator of the performance of Islamic capital market shares in Indonesia. ISSI constituents or members
are all sharia shares listed on the IDX and included in the Sharia Securities List (DES) issued by the OJK.

The property and real estate business is a business known to have volatile characteristics following intense competition and being persistent and complex (Dewi, 2004). The increase in property and real estate prices is due to land prices which tend to arise from time to time, while land demand is also increasing in line with the increase in population, which results in increased human needs for housing, workplaces such as shophouses and offices, shopping centres, entertainment centres etc. Population growth in Indonesia continues to increase from year to year.

At least in the last ten years from 2018. The population in Indonesia continues to experience a significant increase every year (Zuhroh, 2003), Fatmawatie et al. (2020). This is a characteristic that indicates that the increasing population will create a good outlook or prospect in development, especially property or real estate.

This is supported by a recent phenomenon in the property and real estate business in the global and regional environment, which is also interesting to observe, among others, the increasing population growth rate followed by the high growth rate of the property and real estate industry in Indonesia (Hapsari, 2017).

The increasing rate of population growth accompanied by an increase in the number of construction companies established from year to year in Indonesia has led to the fact that the buying or selling power of residential and commercial property buildings has decreased from year to year in the last few years, according to the survey. Conducted by Bank Indonesia in graph 1.

The BI survey results revealed that from 2012 to 2019, in general, sales continued to decline. In the final period, sales experienced a decline in medium to small type houses, with a figure of 26.55% YoY (Year on Year) to 0.46% YoY. Meanwhile, sales of large-type houses grew by 11.75% YoY.

The property sector has two sub-sectors, namely property and real estate and construction. In each sector, both real estate and construction property have systematic and unsystematic types of risk. This systematic risk is intended as a risk faced outside the market, such as inflation, rising and falling interest rates, an economic recession, and other policies covering economic policies. Meanwhile, unsystematic risk can be an internal company risk that has nothing to do with economic policies, such as the company’s internal management capabilities. Company characteristics, work environment conditions and so on (Almalia, 2007).
Business risk is a common risk in getting a profit, such as the risk of an economic crisis, the risk of decreasing rental costs over time, etc. Meanwhile, Financial Risk is a general risk that is also related to business risk, especially in the field of funds or finance that will be experienced by the company (Hassan, 2009).

Many factors can affect the level of completeness of a company's financial statement disclosure. Among them is the level of leverage, liquidity, company size, company's age, level of profitability, the share of public shares, return on equity, operating profit margin, and the status of the company's capital (Sudarmadji, 2007).

Types of company characteristics can be assessed clearly through 6 indicators, namely through diversification, type of industry, company size, and financial ratios, including leverage, profitability and liquidity ratios (Magda, 2014). In detail, company characteristics can be represented by various factors, namely product diversification, company size, and type of industry in property and real estate companies that are consistently listed in the Indonesian Sharia Stock Index.

The calculation of the profitability ratio using the Net Profit Margin analysis is considered the most influential compared to the leverage and liquidity ratios. This is due to the calculation of Net Profit Margin by using direct sales or income comparisons. Therefore, based on various parts of the company's characteristics, in this study, the variables of company size and profitability are considered to affect risk disclosure.
Although the property and real estate business market is growing, supported by the increasing population and the number of property companies that continue to exist from year to year, it does not guarantee that the climate or environment is also favourable. Over the last ten years, sales have slowed compared to the previous period, thus affecting the company's profitability.

Researchers are interested in examining this object because population growth and property and real estate establishments continue to increase. However, during the research period, the data experienced a decline in selling power or consumer absorption in the property and real estate sector. There have been many studies on the effect of profit margin on company risk. The novelty of this research is the effect of the property company’s risk disclosure in addition to being influenced by profit margins, and the company size factor also influences it.

THEORETICAL REVIEW

Net Profit Margin

Net Profit Margin is part of the profitability ratio, which is a ratio to measure the company's ability to make a profit (Hutami, 2012). Net Profit Margin can describe the high or low level of effectiveness in company management as seen from the financial performance report. This can be seen from the profits obtained from sales and investment income or shows about the efficiency of a company (Murhayati, 2012). Profitability ratios can be used by comparing several elements in the financial statements, especially in the balance sheet and profit and loss section (Setiawati, 2015). This calculation is carried out to know the profit value of a particular period, whether it can increase or even decrease. The profitability ratio aims as a helpful calculation for internal and external companies, most notably for calculating how much profit has been made within a certain period.

Company Size

A value that can describe the size of the company is also called company size. The company's size can be described by total sales, total assets, successful market capitalization, total income (Nurhasanah, 2011); Viandita et al. (2013). The greater the associated depiction, the greater the size of the company. On the other hand, if there are fewer related descriptions, including total assets, total sales, capitalization, and so on, it can be said that the company is still small in size.

Risk Disclosures

Risk disclosure is a common effort by companies to inform the company about threats and possible risks so that this information can be used as a factor for consideration in making a company policy or decision (Amran, 2009); Anindyarta & Cahyonowati (2013). Risk disclosure in the financial statements are grouped into 2, namely: Mandatory disclosure and voluntary disclosure. Mandatory disclosure is a minimum standard disclosure required by the applicable SAK, and voluntary disclosure is a voluntary
disclosure issued by a company in the absence of regulations related to management. Only companies are expected to provide accounting information that is considered relevant so that later it will be helpful as a tool that can be considered for decision making (Cahya, 2013).

Research Hypothesis

H1: There is an effect of Net Profit Margin on Risk Disclosure

H2: There is an effect of Company Size on Risk Disclosure

METHODOLOGY

This type of research is descriptive quantitative. The population in this study is property and real estate companies listed on the Indonesian Sharia Stock Index for 2016-2018. The sample in this study was taken using the purposive sampling technique of as many as 28 companies because the sample selection is based on specific criteria, namely property companies that report in full and regularly report at the end of the year.

The variables in this study are Net Profit Margin, Company Size and Risk Disclosure. Net profit margin or net profit margin is a profitability ratio that expresses profit from business operations as a percentage of net income or sales. It takes into account all the costs the business faces, not just the cost of goods sold. The Company size is a scale used in determining the size of a company. The size of the company is believed to affect the area. Disclosure of risk as one of the company's disclosure practices is a way for companies to communicate with their stakeholders. If stakeholders can understand risk information through risk disclosure, it is hoped that the information will satisfy the wishes of stakeholders. The analysis technique uses correlation analysis and multiple regression.

RESEARCH RESULTS AND DISCUSSION

|                      | Net Profit Margin | Size  | Risk  |
|----------------------|-------------------|-------|-------|
| Net Profit Margin    |                   |       |       |
| Pearson Correlation  | 1                 |       |       |
| Sign (2-tailed)      | -0,026            |       |       |
| N                    | 84                | 84    | 84    |
| Size                 |                   |       |       |
| Pearson Correlation  | -0,026            | 1     | 0,350 |
| Sign (2-tailed)      | 0,818             | 84    | 84    |
| N                    | 84                | 84    | 84    |
| Risk                 |                   |       |       |
| Pearson Correlation  | -0,127            | 0,350 | 1     |
| Sign (2-tailed)      | 0,248             | 84    | 84    |
| N                    | 84                | 84    | 84    |

Correlation is significant at the 0,01 level (2-tailed).
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Table 2. ANOVA Table

| Model     | Sum Of Squares | Df | Mean Squares | F     | Sign |
|-----------|----------------|----|--------------|-------|------|
| Regression| 0.042          | 2  | 0.021        | 6.391 | 0.003|
| Residual  | 0.265          | 81 | 0.003        |       |      |
| Total     | 0.306          | 83 |              |       |      |

Dependent Variable: RISK (Y)
Predictors: (Constant), SIZE (X2), NPM (X1)

Table 3. Model Summary

| Model | R     | R Square | Adjusted R Square | Std Error Of The Estimate |
|-------|-------|----------|-------------------|---------------------------|
| 1     | 0.369 | 0.136    | 0.115             | 0.05716                   |

Predictors: (Constant), SIZE (X2), NPM (X1)

Net Profit Margin and Company Size simultaneously have a significant effect on Risk Disclosure (RISK), and the effect is 13.6%. While the remaining 86.4% is explained by other factors.

Table 4. Coefficients Table

| Model       | Unstandardized Coefficient | Standardized coefficients | T     | Sign |
|-------------|----------------------------|---------------------------|-------|------|
| (Constant)  | 0.634                      | 0.38                       | 16.693| 0.0  |
| NPM (X1)    | 0.01                       | -0.110                     | -1.147| 0.255|
| SIZE (X2)   | 0.018                      | 0.347                      | 3.356 | 0.001|

Net Profit Margin (Npm) In Property And Real Estate Companies Registered In The Contents

Net Profit Margin is part of the ratio of profitability calculations which helps determine the value of the company's ability to seek profit (profit). This ratio can show the level of management effectiveness carried out by a company, which can be indicated by the profits obtained from investment and sales income or shows the efficiency of a company. The results of this study indicate that the Net Profit Margin (NPM) of property and real estate companies listed on the Indonesian Sharia Stock Index (ISSI) is 77.50, and the minimum NPM value is 9.58. The average value (mean) is 30.5542. NPM is in the poor category. This is based on the mean value of 30.5542, which is at a score of 26.56≤X <37.88.
Size Of Company (Size) In Property And Real Estate Companies Listed In Contents

Company size is a value that can describe the size of the company. One indicator of calculating company size is to use the total assets. The bigger the assets, the bigger the company size, and conversely, the fewer the assets, the smaller the company size. The results of this study indicate that the maximum value of Company Size (SIZE) of property and real estate companies listed on the Indonesian Sharia Stock Index (ISSI) is 8.11, and the minimum value of NPM is 8.09. The average value (mean) is 6.4062. The size of the company is in a suitable category. This is based on the mean value of 6.4062, which is $6,018 \leq X < 6,854$.

Risk Disclosure (Risk) On Property And Real Estate Companies Registered In Contents

Risk disclosure is an attempt at a company to information through an annual report about any threats that may be experienced by the company concerned so that it can be used as a factor in making decisions that are useful to the company. The results showed that the maximum value of Risk Disclosure (RISK) of property and real estate companies listed on the Indonesian Sharia Stock Index (ISSI) is 0.86, and the minimum NPM value is 0.61. The average value (mean) was 0.7375. Risk Disclosure (RISK) of property and real estate listed on the Indonesian Sharia Stock Index (ISSI) is in a suitable category. This is based on the mean value of 0.7375, which is at a score of $0.7142 \leq X < 0.7558$.

Effect Of Net Profit Margin (Npm) On Risk Disclosure (Risk)

Net Profit Margin (NPM) does not affect Risk Disclosure (RISK). This means that regardless of the value of profitability, whether large or small, the company is still encouraged to disclose complete information about the risks that the company may experience. Even if the company does not experience a profit or deficit, the company is still encouraged to disclose existing risks. The presence or absence of profit does not affect the disclosure of risk. The results of this study support the research of Sudarmadji (2007). However, the results of this study do not support Amran (2009) that companies with a higher level of profitability will disclose more risk when compared to companies that have low profitability.

The Influence Of Company Size (Size) On Risk Disclosure (Risk)

Company Size (SIZE) affects Risk Disclosure (RISK). This means that the larger the size, the more agency costs involved in disclosing the information than smaller companies. Therefore companies with a larger size disclose the risks involved in reducing the incurred agency costs. The results of this study support Prayoga and Amilia (2013).

The Effect Of Net Profit Margin (Npm) And Company Size (Size) On Risk Disclosure (Risk)

Net Profit Margin and company size have a simultaneous influence on Risk Disclosure. The effect is 13.6%, while other causes explain the remaining 86.4%. This means that the two variables together affect the level of a company's Risk Disclosure. This is because
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the company's annual report conveys information to users, so the information is at least required to be complete and accountable. Meanwhile, several other factors may also influence other company characteristics, namely leverage ratios, liquidity ratios, and diversification of products or types of industry.

CONCLUSION

Net Profit Margin in property and real estate companies is categorized as lacking. It means the profits obtained from investment and sales income or, shows not the efficiency of a company. Company Size in property and real estate companies is included in the excellent category. It means that the size of the company has a good influence on the value of the company.

Disclosure of Risk in property and real estate companies is categorized as sufficient. It means risk disclosure is an attempt at a company to information through an annual report about any threats that may be experienced by the company concerned so that it can be used as a factor in making decisions that are useful to the company.

Net Profit Margin has no significant effect on Risk Disclosure. It means the company is still encouraged. In my experience, even if the company does not experience a profit or deficit, the company is still encouraged to disclose existing risks. So that the presence or absence of profit or gain does not affect risk disclosure.

Company Size partially has a significant effect on Risk Disclosure. It means the larger the size, the more agency costs involved in disclosing. The information compared to smaller companies. Therefore companies, with a larger size disclose the risks involved in reducing the incurred agency costs.

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