



#### INDEX

FOREWORDS	
WELCOME SPEECHS	
PATRONS	
PROGRAM	
PRESENTATION SLIDES	
KNOWLEDGE AND AWARENESS OF THE PRIVATE PERSONS TAXPAYER COMPLIANCE RATE TAX PAYERS AT PERFORMING THE OBLIGATION OF TAXATION (Study Case: Tax Payers In Rawamangun Jakarta Timur) Merliyana, Enung Siti Saodah, Tomy Prasetya	1
EFFECT OF COMPETENCE AND INDEPENDENCE INTERNAL AUDITOR AND COMPETENCE HR THE QUALITY OF FINANCIAL REPORTING THE PROVINCIAL GOVERNMENT / MUNICIPAL GOVERNMENT DKI JAKARTA Nelli Novyarni & Imelda Aprileny	2
THE PATTERN OF COOPERATION BETWEEN THE NON-OIL EXPORTERS AND SMALL AND MEDIUM ENTERPRISES IN BUSINESS SHOES Zaidar Zainuddin & Emiyarni MNur	3
THE EFFECT OF INDUSTRIAL TYPE, PROFITABILITY, AND PUBLIC SHAREHOLD ON ISLAMIC SOCIAL REPORTING DISCLOSURES (Empirical Study of Companies Listed in List of Syariah Securities Periode 2013-2016)  Uun Sunarsih & Dahlifah	4
THE EFFECT OF WORK EXPERIENCE AND GENDER OF AUDIT JUDGMENT (Empirical Study at DKI Jakarta Public Accountant Firm)	
Wiwi Idawati	5
PROBLEM TREE ANALYSIS OF COCONUT SUGAR QUALITY PENETRATE INTERNATIONAL MARKET AND MODERN MARKET	
Suliyanto, Weni Novandari, Suwaryo	6
THE EFFECT OF CURRENT AND DEFERRED TAX EXPENSE TO EARNINGS MANAGEMENT AT A MANUFACTURING COMPANY LISTED ON THE EXCHANGE INDONESIA SECURITIES FOR 2010-2014 PERIOD	
Iren Meita, Zahrotul Hayati & Agus Munandar	7
ENTREPRENEURIAL COMPETENCY DEVELOPMENT WITH TRAINING PROGRAM FOR ENTREPRENEUR SMALL SCALE INDUSTRY SANJAI CRACKERS IN BUKITTINGGI CITY	
Sri Ulfa Sentos, Ariusni, Alpon Satrianto	8
THE ROLE OF CORPORATE GOVERNANCE AND ENVIRONMENTAL COMMITTEES IN GREENHOUSE GAS DISCLOSURE	
Daniel TH Manurung, R Wedi Rusmawan Kusumah, Bachtiar Asikin, Irma Suryani	9

THE OPPORTUNITIES TO HAVE OWN HOME IN BANDA ACEH CITY	
Yasrizal	10
PRICE FORMATION AROUND CUM DATE DIVIDEND ANNOUNCEMENT: EMPIRICAL EVIDENCE IN INDONESIAN STOCK EXCHANGE	
Budi Frensidy, Irene Josephine, Ignatius Roni Setyawan	11
RISK OF STOCK PRICE RISK AND STOCK RETURN FROM SHARES THAT IS LISTED ON THE INDONESIA STOCK EXCHANGE	
Eko Budi Santoso	12
PROJECT BASED LEARNING AND INNOVATION IN ENTREPRENEURSHIP EDUCATION	
Oscarius Yudhi Ari Wijaya & Wirawan ED Radianto	13
DO DISTANCE OR TRAVELING TIME TO CENTRAL BUSINESS DISTRICT HAS EFFECT ON RESIDENTIAL LAND PRICE IN URBAN AREA?	
Suparmono, Darsono, Jhony Sarungu, Guntur Riyanto	14
SPILLOVER EFFECTS OF FOREIGN DIRECT INVESTMENT ON DOMESTIC FIRMS: AGGREGATE AND DISAGREGATE ANALYSIS	15
Suyanto	13
THE EFFECT OF SIZE, FIRM AGE, GROWTH, AUDIT REPUTATION, OWNERSHIP AND FINANCIAL RATIO ON INTELLECTUAL CAPITAL DISCLOSURE	2.5
Yesica Delvia & Nico Alexander	16
DO FINANCIAL RATIOS, FIRM CHARACTERISTICS AND CORPORATE GOVERNANCE AFFECT FIRM PERFORMANCE?	
Jenny, Silvy Christina	17
BUILDING CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY REPORTING THROUGH ISLAMIC PERSPECTIVE ON SHARIA BANK	
Rimi Gusliana Mais, Eko Ganis S, Aulia Fuad Rahman, Aji Dedi Mulawarman	18
THE ROLE OF PERCEIVED ORGANIZATIONAL SUPPORT IN THE RELATIONSHIP BETWEEN JOB INSECURITY AND ORGANIZATIONAL CITIZENSHIP BEHAVIOUR	
Anna Partina, Mugi Harsono, Sri Hunik Runing, Tulus Haryono	19
VIOLATIONS OF FINANCIAL REGULATION, LEVERAGE AND FINANCIAL PERFORMANCE ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE	
(Study On Non-Financial Companies Listed In Indonesia Stock Exchange) Rika Lidyah, Titin Hartini, Mismiwati	20
TAX ON COOPERATIVES IN INDONESIA Kus Tri Andyarini	21
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INVESTIGATION OF INTELLECTUAL CAPITAL IMPACT AND FIRM SIZE TO ISLAMIC SOCIAL REPORTING WITH PROFITABILITY AS MEDIATION ON SHARIA BANKS IN INDONESIA	
Dinnul Alfian Akbar	22
BANK INTERNAL FACTORS AND PROFIT DISTRIBUTION MANAGEMENT OF SYARIAH BANKS IN INDONESIA	
Mismiwati	23
POLICY INTEGRATION: POLICY-MAKING PERSPECTIVES AND INSTITUTIONAL CHALLENGES ON FORESTRY SECTOR IN INDONESIA Yogi Suwarno	24
Togr Suwamo	24
THE EFFECT OF COMPETENCE, MOTIVATION AND QUALITY ASSURANCE TOWARD THE AUDIT QUALITY (Study at The Auditors of The Directorate General of Customs And Excise)	
Fauzi Rachman, Wiwi Idawati	25
THE INFLUENCE OF PARENT'S PERCEPTION ON THEIR INTEREST TO SEND THEIR CHILDREN TO PAUD	
Lilik Trianah & Diah Pranitasari	26
THE INFLUENCE OF COMPENSATION, ORGANIZATIONAL COMMITMENT AND CAREER PATH TO JOB PERFORMANCE EMPLOYEES	27
Sulaefi	27
EVALUATION OF LOCAL GOVERNMENT INNOVATION PROGRAM (Analysis Of Free Health Service Program (P2km) In Bandar Lampung)	20
Simon Sumanjoyo Hutagalung	28
THE IMPLEMENTATION OF DESIGN THINKING METHOD ON 'HAPPY RAINBOW' START UP BUSINESS	
Wawan Kurniawan, Teddy Siswanto, Ratna Shofiat, Hartini	29
STRESS OR HAPPINESS? UNDERSTANDING EMOTION AT WORK ON FEMALE	
CORRECTIONAL OFFICERS IN JAVA, INDONESIA	20
Anggun Resdasari Prasetyo, Unika Prihatsanti, Ika Zenita Ratnaningsih	30
THE EFFECT OF BRAND LOVE ON BRAND TRUST, BRAND LOYALTY AND WORD OF MOUTH (A Case Study: Go-Jek (Online Taxi Motorbike) In Jakarta)	
Vita Briliana	31
THE EFFECTS OF INTELLECTUAL DISCLOSURES CAPITAL, DEBT TO	
ASSETS RATIO, DEBT EQUITY RATIO, COMPANY SIZE AND ASSETS TURNOVER ON COMPANY PROFITABILITY (Empirical Study on Manufacturing Companies Listed on Indonesia Stock Exchange Period 2011 - 2015)	
Diana Supriati, R Kananto, Asiva Kusriananda	32

FACTORS THAT EFFECT THE STOCK RETURN OF MANUFACTURING COMPANIES AT THE INDONESIA STOCK EXCHANGE Agatha Marwati, Indra Arifin Djashan	33
CAREER MANAGEMENT AND EMPLOYEE WORK PERFORMANCE :	55
CASE INDEPARTMENT OF AGRICULTURE CIANJUR	
Meita Pragiwani, Mohammad Benny Alexandri	34
EFFECT OF JOB SATISFACTION AND ORGANIZATIONAL COMMITMENT ON TURNOVER INTENTION	
Christina Catur Widayati, Nico Alexander, Titin Maryati	35
EFFECT OF AUDIT COMMITTEE CHARACTERISTICS AND BOARD OF DIRECTORS' COMPENSATION AGAINST RISK MANAGEMENT COMMITTEE EXISTENCE R Wedi Rusmawan Kusumah, Bachtiar Asikin, Daniel TH Manurung,	
Andina Nur Fathonah	36
DEVELOPMENT OF ECONOMIC, LEGAL, AND POLITICAL FRAMEWORK	
TO IMPROVE PUBLIC SERVICE QUALITY IN INDONESIA	
A Rina Herawati	37
ANALYSIS OF MUTUAL FUND'S PERSISTENCE IN INDONESIA	
Mohammad Benny Alexandri, Meita Pragiwani, Joko Bagio Santoso	38
THE INFLUENCES OF TAX, BONUS MECHANISM, FOREIGNOWNERSHIP, LEVERAGE AND COMPANY SIZE THROUGH COMPANY DECISION	
ON TRANSFER PRICING (Empirical Study on Registered Manufacturing Company	
In Indonesia Stock Exchange Year 2012-2015) Sulistyowati & R Kananto	39
	39
THE PAST RISK AND RETURN AS THE SIGNALS OF THE FUTURE INDEX AND RETURN ON SHARIA STOCK IN INDONESIA	
Muhammad Anhar	40
INTERNATIONALIZATION OF HIGHER EDUCATION THROUGH THE ROLE OF CULTURAL INTELLIGENCE MANAGEMENT AMONG FOREIGN STUDENT	
Nury Ariani Wulansari, Desti Ranihusna, Siti Ridloah, Whisnu Elianto	41
ANALYSIS OF FACTORS INFLUENCING THE VALUE OF BANKING COMPANIES REGISTERED IN BEI	
Flourien Nurul Ch & Lies Zulfiati	42
ANALYSIS OF INDONESIAN RICE PRICE TRANSMISSION AND IT'S IMPLICATIONS	
Ahmad Muslim	43
INTERDEPENDENCY BETWEEN INTERNATIONALIZATION AND FIRMS' PERFORMANCE	
Della Meilody & Deddy Marciano	44

33

THE ANALYSIS OF WELFARE LEVEL FAMILY DRIVER ONLINE OJEK IN JAKARTA Yusuf Maksudi & Ade Mulyati	45
ANALYSIS OF FINANCIAL PERFORMANCE OF STATE OWNED BANK AND PRIVATE BANK THAT GO PUBLIC	
Subekti Singgih Hadi & Lina Noersanti	46
NTELLECTUAL CAPITAL INFLUENCE ON FINANCIAL PERFORMANCE BANKING Ono Tarsono, Faris Faruqi, Ayuni Fauziyah	47
THE ANALYSIS OF REPUTATION, INFRASTRUCTURE CAPABILITY, TECHNICAL CAPABILITY, AND INNOVATION CAPABILITY OF HIGHER EDUCATION INSTITUTIONS TO STUDENT SATISFACTION  Siti Nurjanah & Basuki Toto Rahmanto	48
Stu Nurjanan & Basuki Toto Ranmanto	40
THE INFLUENCE OF ORGANIZATIONAL CULTURE AND JOB TRAINING ON THE PERFORMANCE OF PT BINTANG TOEDJOE EMPLOYEES WITH JOB SATISFACTION AS MEDIATING VARIABLE	
Agnesia Juliana & Ferryal Abadi	49
CORPORATE GOVERNANCE, TAX AVOIDANCE AND COST OF DEBT Wenny Maulidina & Lies Zulfiati	50
MANAGEMENT OF CHILD-FRIENDLY INTEGRATED PUBLIC SPACE (RPTRA) AS A SPACE FOR CHILD DEVELOPMENT AND COMMUNITY INTERACTION (Case Study In Rptra Bahari, South Jakarta Administrative City)	
Hamidah R Susilatun & Hilda Rifani	51
EFFECT OF PROFITABILITY, LIQUIDITY, AND SIZE OF COMPANY ON ACCEPTANCE OF AUDITOR'S GOING CONCERN OPINION	
Arief Wicaksono & Faris Faruqi	52
MODERATING EFFECT OF USEFULNESS MANAGEMENT ACCOUNTING SYSTEM ON THE RELATIONSHIP BETWEEN INNOVATION AND FIRM PERFORMANCE: EVIDENCE FROM BANDUNG DISTRICT, WEST JAVA, INDONESIA	
Muhammad Dahlan	53
THE EFFECT OF CORPORATE GOVERNANCE AND ASYMMETRY INFORMATION ON EARNING QUALITY IN MANUFACTURING COMPANIES FROM 2011-2015	
Maya Mustika	54
THE EFFECTIVENESS OF THE MANAGEMENT OF THE PROCUREMENT OF GOODS OR SERVICES IN THE PROVINCIAL GOVERNMENT OF NORTH SULAWESI	
Novrabella Clarashinta Pakasi	55
ANALYSIS OF GOVERNMENT ACCOUNTABILITY PERFORMANCE ON SUPERVISION AND SERVICES OFFICE AT THE CUSTOMS OF MATARAM	
I Nyoman Tantri Phala	56

BPKH GOOD GOVERNANCE SOLUTION HAJJ FUND AT MINISTRY OF RELIGIOUS REPUBLIC OF INDONESIA	
Nursanita Nasution	57
CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMACE IN INDONESIA ISLAMIC BANK	£0
Faris Faruqi	58
COMPANIES' FINANCIAL PERFORMANCE AND MACROECONOMICS CONDITION, HOW THEY RELATE TO SHARE PRICE CASE STUDY COMPANIES IN CONSUMPTION SECTOR IN IDX	
Doddi Prastuti & Pristina Hermastuti Setianingrum	59
PARTICIPATION OF MIGRANTS IN MINANGKABAU DEVELOPMENT	
Musril Zahari	60
THE DETERMINANTS OF INTELLEC'TUAL CAPITAL DISCLOSURE Herri Sugandi & Irwanto Handojo	61
THE EFFECT OF CAR, NPL, LDR, BOPO, TOTAL ASSET, BI RATE AND EXCHANGE RATE TOWARD ROA OF BANKS LISTED IN INDONESIA STOCK EXCHANGE DURING 2011-2016	
Muhammad Ikhsan	62
THE EFFECT OF IMPLEMENTATION INTERNAL CONTROL SYSTEM AND FINANCIAL ACCOUNTABILITY TOWARDS QUALITY OF FINANCIAL STATEMENTS GOVERNMENT OF BEKASI CITY (Survey at regional work units (PD) Government of Bekasi City)	
Lia Eleonora, Wiwi Idawati	63
THE EFFECT OF INTERNAL AND EXTERNAL MECHANISM TO CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE Astrid Rudyanto, Ryan Rinaldi Senjaya	64
ATTACHMENT AND BULLYING AMONG ADOLESCENTS IN SEMARANG, INDONESIA	
Erin Ratna Kustanti	65
VILLAGE FUND MANAGEMENT IN PERSPEKTIVE HABERMAS CRITICAL THEORY Maruhun, Thatok Asmony, Lilik Handajani	66
THE INFLUENCE OF ADMINISTRATION OF REGIONAL-OWNED PROPERTY TOWARD QUALITY OF GOVERNMENT FINANCIAL REPORT OF WEST NUSA TENGGARA PROVINCE	
Karina Galuh Mentari, Akram, Thatok Asmony	67
EFFECT OF QUALITY OF FINANCIAL REPORTING TO ASIMETRY INFORMATION ON MANUFACTURING COMPANY IN BEI	
Siti Almurni & Hendrawati	68
CAPITAL MARKET INTEGRATION OF ASEAN-5 STOCK MARKET Imron HR & Jusuf Hariyanto	69
	0)

IMPLEMENTATION OF QUALITY CONTROL IN WOMEN FOOTWEAR PRODUCTION PROCESS	1
Agatha Rinta Suhardi & Kiki Rizki Amalia	70
INTEPRETIF STUDIES ABOUT THE IMPLEMENTATION OF THE GREEN BANKING IN CREDIT LENDING AT BNI KCU MATARAM Amri, Lilik Handajani, Hermanto	71
THE EFFECT OF THE COMMODITY PRICE ON SHARIAH STOCK MARKETS VOLATILITY IN DEVELOPED AND DEVELOPING COUNTRIES Dian Surya Sampurna & Ridwan Maronrong	72
THE INFLUENCE OF INDEPENDENCE, EXPERIENCE, DUE PROFESSIONAL CARE, AND ACCOUNTABILITY OF THE QUALITY OF AUDIT (Empirical Study On Regional Public Accounting Firm In Central Jakarta and East Jakarta)	73
ACCOUNTING CONSERVATISM, EARNING MANAGEMENT AFTER IFRS CONVERGENCE Rifathi Syadzli & Muhamad Safiq	74
AUDIT OF NICKEL ORE PRODUCTION PT INTEGRA TECHNOLOGY NUSANTARA-A CASE STUDY M Hasbi Saleh	75
STRATEGY FOR INCREASING ADDED VALUE BY SEAWEED PROCESSING AND MARKETING BUSINESS (A Case Study in West Maluku Tenggara-Indonesia) Stenly Jacobus Ferdinandus, Agustina Risambessy, Raja Bonan Dolok Sormin	76
CAREER INTEREST AS AN ACCOUNTANT LECTURER WITH COMPENSATION AS A MODERATING VARIABLE Erna Lovita	77
MANAGERIAL BEHAVIOR IN FINANCIAL PERFORMANCE ON DIVIDEND POLICY (Study on Sub Sector Tobacco, Food and Beverage listed on Indonesian Stock Exchange) Tita Deitiana & Fhika Astali Pohan	78
SOCIAL CAPITAL ON INDIGENOUS PEOPLE : THE COMMUNITY WAYS TO LIFE WITHIN GLOBAL CHANGING Nandang Mulyana, Hetty Krisnani, Risna Resnawaty	79
CONSUMER CONSIDERATION IN DECIDING THE PURCHASE OF SPECS SPORTS SHOES THROUGH BRAND IMAGE, PRODUCT DESIGN AND PRICE PERCEPTION Sri Widyastuti, Bayu Retno W, Achsanul Qosasi	80
CORPORATE GOVERNANCE AND ITS ROLE IN THE EFFECT OF ISLAMIC SOCIAL REPORTING (ISR) ON THE FIRM VALUE	
Salis Musta Ani	81

PROFESSIONALISM AND INSPECTORATE AUDITOR'S PERFORMANCE : AN ANALYSIS OF GENDER PERSPECTIVE Lailah Fujianti	82
THE EFFECT OF ISLAMIC FINANCIAL RATIO OF PROFITABILITY Dahlifah & Uun Sunarsih	83
ISLAMIC MANAGEMENT AND ITS ROLE IN DEVELOPING ORGANIZATIONAL ETHICS	
Mohd Fuad Mohd Salleh, Astri Yulia  THE RISK OF CLIENT AND THE AUDIT PLANNING: INFLUENCE OF ACCEPTANCE	84
OF AUDIT (Study at Public Accounting Office in Jakarta, Indonesia) Tigor Sitorus, Deby Suryani	85
INFLUENCE OF STRENGTHENING INSTITUTIONAL AND PRODUCTION SMES BASED ON GREEN ECONOMY IT'S IMPACT ON PERFORMANCE	0.6
Sriyono, Sigit Hermawan, Sarwendah Biduri	86
THE IMPACT OF WORKING SATISFACTION FACTORS ON THE EMPLOYEE PERFORMANCE IN PT PETROLINDO SATRIAPUTRA JAKARTA Agus Arijanto	87
	07
LABOR ABSORPTION ON INDONESIAN INDUSTRY SECTOR Rama Chandra, Sumitro, Ginanjar Syamsuar	88
THE WORD FRAMING EFFECTS, MORAL DILEMMA AND DECISION MAKING: CONCEPTUAL PAPER	
Deasy Ariyanti Rahayuningsih	89
THE IMPACT OF STRATEGIC MANAGEMENT PRACTICES ON FIRM PERFORMANCE (A Study Of Indonesian Construction Company)	
Fajar Sasongko	90
THE EFFECT OF TECHNOLOGY CAPABILITY, KNOWLEDGE CAPABILITY AND ENTREPRENEUR ORIENTATION ON SMEs SUSTAINABLE COMPETITIVE ADVANTAGE	
Nur Endah RetnoWuryandari	91
DETERMINANTS OF REVALUATION ASSET Tiolina Evi	92
ANALYSING THE ROLE OF ACCOUNT REPRESENTATIVE TOWARD THE OBEDIENCE OF TAXPAYERS	
Tiolina Evi	93
THE INFLUENCE OF TIME BUDGET PRESSURE ON AUDIT QUALITY AND AUDITOR DYSFUNCTIONAL BEHAVIOR AS INTERVENING VARIABLE	
Arief Wicaksono, Faris Faruqi, Gisela Sybil Beatrys	94

The 4th ICBESS 2017 - PROCEEDING Tentrem Hotel Yogyakarta, August 9 – 10, 2017	
EFFECT OF TRAINING AND JOB PERFORMANCE ON JOB SATISFACTION IN PT GARUDA INDONESIA TRAINING CENTER Muhammad Nashar, Ryani Dhyan Parashakti, Hilda Sona Fauziah	95
EFFECT OF PROFITABILITY, LIQUIDITY, LEVERAGE, REPUTATION AUDITORS, FOREIGN OWNERSHIP, PUBLIC OWNERSHIP AND LISTING AGE ON USE OF THE WEBSITE TO PUBLISH ACCOUNTING INFORMATION Imam Subaweh & Sri Supadmini	96
MINANG LANGUAGE LEARNING THROUGH FOLKLORE Erni Hastuti, Reza Chandra, Teddy Oswari	97

3

# SPILLOVER EFFECTS OF FOREIGN DIRECT INVESTMENT ON DOMESTIC FIRMS: AGGREGATE AND DISAGREGATE ANALYSIS

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Abstract - This research examines the spillover effects of foreign direct investment (FDI) on the productivity of local firms in East Java. It seeks to provide insight into the aggregate and disaggregate analyses of the spillover effects. At the aggregate level, the spillover effects on firms' productivity are evaluated for all firms in manufacturing industries. At the disaggregate level, the spillover effects are examined for firms in nine specific industries. Two measures of spillover effects are applied in gaining a comprehensive analysis on the productivity advantages. The impact of FDI on productivity level is analyzed to gain insight into the long-run spillover effects, while the impact of FDI on productivity growth is to detect the short-run effects. There are five important findings of this study: (1) there is indication of a positive productivity spillover from FDI on local firms; (2) the labour-intensive industries tend to receive negative spillover effects, whereas the capital-intensive industries tend to gain positive spillover effects; (3) the total factor productivity growth (TFPG) of firms in East Java is sourced mainly from the scale efficiency change (SEC); (4) the spillover effects of FDI are mainly scale-efficiency knowledge and technological knowledge; (5) the technical efficiency knowledge tends to be a long-run effect rather than a short-run.

Keywords: spillover effects, foreign direct investment, manufacturing industry, east java. EL: D24, D29, F23

220

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