15th International Symposium on Management (INSYMA 2018)

Advances in Social Science, Education and Humanities Research Volume 186

Chongburi, Thailand
1 March 2018

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# TABLE OF CONTENTS

## SESSION: CROSS-CULTURE MANAGEMENT

**FACE-TO-FACE IS THE MOST EFFECTIVE MEDIA FOR COMMUNICATION OVER SOCIAL MEDIA** ................................................................. 1  
Svenja Arabella Hallerberg, Madawala Liyanage Duminda Jayaranjan, Samaia Farzana

**CROSS CULTURAL MANAGEMENT IN THE HIGHER EDUCATIONAL INSTITUTIONS** ........................................... 6  
Tony S. Kuo

**CULTURAL SUSTAINABILITY AND KINDSHIP MODE OF PRODUCTION AMIDST GLOBAL ECONOMY** ................................................................. 9  
Levita Duhaylungsod

**DEVELOPING A CAUSAL MODEL OF GAME ADDICTION AND STEALING BEHAVIOR AMONG UNDERGRADUATE STUDENTS** ........................................... 14  
Thitiwat Numkhan, Waiphot Kulachai

## SESSION: ENTREPRENEURSHIP

**SOCIAL CAPITAL, TIERED ENTREPRENEURSHIP TRAINING, AND AGROTOURISM DEVELOPMENT MODEL OF KAMPUNG SALAK BOJONEGORO** ................................................................. 19  
Noviaty Kresna Darmasetiawan

**THE KEY CHALLENGES TO UTILIZE INNOVATIVE OPPORTUNITIES OF SMALL AND MEDIUM SIZED ENTERPRISES IN SURABAYA, INDONESIA** ................................................................. 22  
Prita Ayu Kusumawardhany

## SESSION: FINANCE

**FINANCIAL PERFORMANCE, CORPORATE GOVERNANCE, AND FINANCIAL DISTRESS** ................................................................. 26  
Endang Ernawati, Samantha Elysia Handojo, Werner R. Murhadi

**THE IMPACT OF HEURISTICS AND BIASES IN THE APPLICATION OF PROFESSIONAL JUDGEMENT BY INTERNAL AUDITORS IN THE STAGE OF FIELDWORK** ................................................................. 31  
Jonathan Tanone, Senny Harindahyani

**JAVANESE LUNAR CALENDAR EFFECT (PRIMBON) ON ABNORMAL RETURN** ................................................................. 36  
Sidarta Hermin, Putu Anom Mahadwartha

**TEST OF FAMA & FRENCH FIVE FACTOR-MODEL ON INDONESIAN STOCK MARKET** ................................................................. 40  
Lilliana Ingegit Wijaya, Randy Kennardi Irawan, Putu Anom Mahadwartha

**FACTORS IN TAXATION POLICIES ISSUANCES** ................................................................. 43  
Norbertus Purnomolastu, Werner R. Murhadi

**SOFT LOAN PROGRAM FOR CREDIT UNION: A FRUITFUL OR A USELESS PROGRAM?** ................................................................. 47  
Ria Sandra Alimbudiono

**STOCK INVESTMENT ANALYSIS, IDIOSYNCRATIC RISK AND ABNORMAL RETURN** ................................................................. 51  
Sayyanto, Florens Natalia Handayani Sibarani

**THE EFFECT OF CORPORATE GOVERNANCE ON THE CAPITAL STRUCTURE: AN INDONESIAN CASE** ................................................................. 55  
Arif Herlambang, Werner R. Murhadi, Giovani Anggasta Susanto

**INTERDEPENDENCY BETWEEN INTERNATIONALIZATION, FIRM PERFORMANCE, AND CORPORATE GOVERNANCE** ................................................................. 59  
Allan Muliyanto, Dedy Marciano

**THE INFLUENCE OF INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE IN SHARIA BANKING COMPANIES** ................................................................. 63  
Eka Nuraini Rachmawati, Restu Hayati, Fitra Yulandi

**ANALYSIS OF WORKING CAPITAL MANAGEMENT OF INDUSTRY PRACTICES IN INDONESIA** ................................................................. 67  
Lukas Purwoto, Caecilia Wahyu Estining Rahayu
FACTORS DETERMINANT OF BANK CAPITAL BUFFER: EMPIRICAL STUDY ON ISLAMIC RURAL BANKING IN INDONESIA ............................................................................................................................... 72
Sutrisno

THE IMPORTANCE OF CORPORATE GOVERNANCE ............................................................................................................................. 76
Mudji Utami, Bertha Silvia Sutejo

INFLUENCE OF FINANCIAL ATTITUDE, FINANCIAL BEHAVIOR, FINANCIAL CAPABILITY ON FINANCIAL SATISFACTION ........................................................................................................ 80
Agus Zainul Arifin

ANALYSIS OF OPTIMAL HEDGE RATIO AND HEDGING EFFECTIVENESS IN TAIWAN STOCK EXCHANGE CAPITALIZATION WEIGHTED STOCK INDEX (TAIEX) FUTURES .................................................. 84
Jason Aditya Jahja, Ika Yanuarti Loebiantoro

MANAGERIAL OVERCONFIDENT AND FIRM FINANCING DECISION: AN INDONESIAN CASE ............................................................................................................................... 89
Werner Ria Murhadi

DEMOGRAPHY FACTORS, FINANCIAL RISK TOLERANCE, AND RETAIL INVESTORS ............................................................................................................................. 94
Bertha Silvia Sutejo, Yohanes Kokoh Natan Pranata, Putu Anom Mahadwartha

MANAGEMENT'S CHINESE ZODIAC AND OWNERSHIP TO FIRM PERFORMANCE ............................................................................................................................... 98
Rico Tedyono, Putu Anom Mahadwartha

"STILL ME": HUMAN INVOLVEMENT IN MANAGEMENT ACCOUNTING ............................................................................................................................. 102
Riesanti Edie Wijaya

DOES FEMALE CEO AND FEMALE DIRECTORS AFFECT DIVIDEND POLICY? ............................................................................................................................. 106
Fitri Ismiyanti, Ari Prasetyo, Indri Agestya Cania

THE INFLUENCE OF GOOD CORPORATE GOVERNANCE (GCG) ON FINANCIAL DISTRESS .................................................................................................................. 109
Werner Ria Murhadi, Felicia Tanugara, Bertha Silvia Sutejo

SESSION: HUMAN RESOURCES

INVESTIGATING THE CORRELATION BETWEEN COMMITMENT, SPIRITUALITY AND PERFORMANCE IN WORKPLACE ................................................................................................. 113
Utik Bulayati, Adi Hardianto

THE EXISTENCE OF HUMAN RESOURCES EMPLOYABILITY TO ENERGIZE THE POWER OF COMPETITIVE ADVANTAGE OF AQIQAH NURUL HAYAT SURABAYA .......................................................... 117
Johny Rusdiyanto, Elsye Tandelilin

COMMUNICATION STRATEGIES IN IMPROVING AGRICULTURAL SOCIETY'S VALUE AND PARTICIPATION ............................................................................................................................. 120
Noviasty Kresna Darmasetiawan, Lanny Kasuma Widjaja, Huang Lijie

EXPLORATION OF INTENTION TO TURNOVER: CASE STUDY OF HOSPITAL IT EMPLOYEES .................................................................................................................. 124
Siska Arianti, Dudi Setyawan, Budi Setyanta

THE INFLUENCE OF INTRINSIC AND EXTRINSIC FACTORS ON THE JOB SATISFACTION OF THE INTERNAL AUDITORS OF THE STATE ISLAMIC UNIVERSITIES IN INDONESIA ........................................................................ 127
Suhartoono, Gagaring Pagalung, Grace T. Pontoh

INTERNAL COMMUNICATION, EMPLOYEE PARTICIPATION, JOB SATISFACTION, AND EMPLOYEE PERFORMANCE .................................................................................................................. 131
Waiphot Kulachai, Piya Narkwatchara, Pralong Siripool, Kasisorn Vilailert

SESSION: MARKETING MANAGEMENT

DEVELOPING A DESTINATION BRAND IN THE CONTEXT OF REGIONAL AND NATIONAL BRANDING STRATEGIES: A CASE STUDY OF BRAND DEVELOPMENT OF SLEMAN DISTRICT, YOGYAKARTA SPECIAL PROVINCE, INDONESIA ............................................................................................................................. 136
Ike Janita Dewi

BUILDING LOCAL FASHION BRAND EQUITY FOR YOUNG CONSUMERS ............................................................................................................................. 141
Mega Melina Dewi, Dudi Anandya, Christina Rahardja Honantha

A MESSAGE BEHIND A SMILE: HOW FACIAL EXPRESSION SUPPORTS COMMUNICATION IN MARKETING .................................................................................................................. 145
Andhy Setyawan, Dudi Anandya, Farenza Renada Fulongga

USABILITY, CUSTOMER SATISFACTION, SERVICE, AND TRUST TOWARDS MOBILE BANKING USER LOYALTY ............................................................................................................................. 149
Victoria D. Johannes, Indarini, Silvia Margaretha
THE EFFECT OF SERVICE QUALITY TO CUSTOMER SATISFACTION AND LOYALTY IN SHARIA BANK
Gito Suseno, Muchsin Muthohar

A STUDY OF DRINKING BEHAVIOR AMONG UNDERGRADUATE STUDENTS IN CHONBURI
Pornrapree Torsak, Waiphot Kalachai

PRODUCT TYPES IN MODERATING THE PROCESS OF BUYING STREET FOODS
Budhi Haryanto, Djoko Purwanto, Amina Sukma Dewi

CONSUMER'S RESPONSE TO E-MAIL ADVERTISEMENT FROM TOUR AND TRAVEL AGENCY IN INDONESIA
Jonathan Kurniaawan Halim, Silvia Margarettha, Christina Rahardja Honantha

INDONESIAN TOURISM MARKETING COMMUNICATION STRATEGY THROUGH LIONMAG IN-FLIGHT MAGAZINE
Adi P. Tedjakusuma, Hayuning P. Dewi

THE EFFECT OF ECO-FRIENDLY PRACTICES ON GREEN IMAGE AND CUSTOMER ATTITUDES
Christina Rahardja Honantha, Dudi Anandya, Andhy Setyawan

THE INFLUENCE OF HALLYU, PACKAGING AND SUBJECTIVE NORMS TOWARDS BUYING INTENTION ON CULTURE ADAPTATION IN ETUDE HOUSE
Yuco Aldelina, Jony Oktavian Haryanto

DARK TOURISM MARKETING THROUGH EXPERIENCE VISIT AT EAST JAVA
Erna Andajani

A STUDY OF THE IMPACT AND EFFECTIVENESS OF SCENT USED FOR PROMOTION OF PRODUCTS AND SERVICES WITH LOW OLFACTORY AFFINITY
Jun Kumamoto, Adi P. Tedjakusuma

"WONDERFUL INDONESIA" COUNTRY MARKETING CAMPAIGN - HOW VISIBLE INDONESIA AS A TOURISM DESTINATION FOR EUROPEANS
Slavomir Rudenko, Adi P. Tedjakusuma

SESSION: OPERATION MANAGEMENT
MODEL ANALYSIS OF SERVICE SATISFACTION AS THE MODULATOR BETWEEN SERVICE QUALITY AND DECISION-MAKING BEHAVIOR IN USING LOW-COST AIRLINES
Sumalee Ramanust, Tikhamporn Punluekdej, Yaowalak Nakvichien

THE ANALYSIS OF LOGISTICS AT MCDONALD'S RESTAURANT DENPASAR BALI
Anna Putri Andari, Stefanus Budy Widjaja Subali, Juliiani Dyah Trisnawati

SESSION: OTHER RELEVANT BUSINESS TOPICS
FACTORS INFLUENCING TRAVEL TO ISLAMIC DESTINATIONS: AN EMPIRICAL ANALYSIS OF SUNAN AMPEL RELIGIOUS TOURISM AREA SURABAYA
Siti Bahaya

EDUCATIONAL TOURISM AS THE CONCEPTUAL AGE IN THE UNIVERSITY OF SURABAYA
Veny Megawati

INFLUENCE OF DESTINATION ATTRIBUTES ON DESTINATION IMAGE OF SURABAYA CITY ACCORDING TO DOMESTIC MICE PARTICIPANTS
Fitri Novika Widjaja

FACTORS INFLUENCING ACCOUNTING STUDENTS IN ACCEPTANCE OF E-LEARNING
Adhicipta Raharja Wirawan

GUEST SUPPLIES PRESSURES TO ENVIRONMENT: A HOTEL CASE STUDY
Ida Bagus Made Wiyasha, I. Nyoman Sudiksa

DO LOCAL SUPPLIERS AND LOCAL BUYERS BENEFIT FROM FOREIGN DIRECT INVESTMENT?: EVIDENCE FROM INDONESIA
Sayanto, Yenny Sugiarti
SESSION: SERVICE MANAGEMENT

SERVICE QUALITY OF PUBLIC TERMINAL USERS IN UPT-LLAJ EAST JAVA .......................................................... 228
Sukesi, Rahma S.Muliasari

SESSION: STRATEGIC MANAGEMENT

RESOURCE ORCHESTRATION TO IMPROVE COMMUNICATION WITH CUSTOMERS:
"CASE STUDY: MSME FOOTWEAR IN EAST JAVA" ............................................................... 232
Juliani Dyah Trisnawati, Muhammad Rosianan

CYCLING: DO THE HEALTH BENEFITS OF CYCLING OUTWEIGH THE RISKS IN BANGKOK? ............................................................... 236
David Saele

CORPORATE COMMUNICATION AND STRATEGIC MANAGEMENT: HISTORY,
OPERATIONAL CONCEPT AND INTEGRATION ........................................................................ 239
Bachtiar Mohamad, Hassan Abu Bakar

BUSINESS STRATEGY: A STUDY ON COST STICKINESS BEHAVIOR ............................................................... 244
Permata Ayu Widyasari

A STUDY ON THE IMPACTS OF SMARTPHONE ADDICTION ............................................................... 248
Napassphol Sinsomsack, Waiphot Kulachai

DEVELOPING HO CHI MINH CITY TO BE THE CITY OF AFFECTION, MODERNIZED, AND QUALITY LIVING ........................................................................ 253
Phan Thi Hong Xuan

Author Index
1 INTRODUCTION

According to Megginson (1997), the rate of return on an investment is the ultimate consideration for investors in investing, whereas capital gains are an important component in calculating the rate of return other than dividends in a certain period. Fama & French (1992) examined the relationship between average return by size factor, price earnings ratio, leverage, and B/M. The main result of Fama & French (1992) concludes that the size factor and book equity to market equity factor gives a simple but strong explanation for the characteristics of cross-section average returns.

Fama & French (2014) tested the performance of the Five-Factor Model (5FF) in predicting the excess return of stocks listed in the United States. The beginning of the study, Fama and French looked at patterns of factor size, B/M, profitability, and investment against average returns. Fama and French formed three portfolio sorts, based on factor size intersection to B/M, profitability, and investment (Fama & French 2014). The pattern of a negative correlation between size and investment to return was found in all portfolios. Meanwhile, B/M and profitability had a positive correlation to return. Fama & French also conducted tests to determine the most suitable portfolio factor formation in predicting the return using 5FF. The test results showed the 2 x 3 factor (size-B/M, size-OP, size-Inv) is the best. Through simultaneous test, it was found out that the HML or B/M variable has no correlation on the 5FF model because the high average return rate of HML, as reflected by other dependent variables (Chiah & Zhong 2015). However, the regression testing result for each portfolio; i.e. formed portfolio (that is based on size - B/M, size - OP, and Size - OP – Inv) shows that: market risk premium B/M and profitability has a significant positive correlation to return while size and investment have a significant negative correlation to return. The most important result of the Fama & French model (2014) is the 5FF model that is proven able to describe the correlation of risk and return better than the 3FF model (Fama & French 2006).

This study is limited to investigate only the correlation of market risk premium, size, B/M, profitability, and investment towards excess return in all companies listed in the LQ-45 index over the three consecutive years of 2013-2015 periods.

The purpose of this research is to find empirical evidence on the effect of market risk premium, size, book-to-market equity, profitability, and investment...
against the excess return of companies listed in the LQ-45 index over the 2013-2015 period.

2 RESEARCH METHODS

This research is classified as basic research (Gujarati 2008) type that is a study to develop research that has been done before. Based on the objectives, this study is causal research type because it was conducted to examine the effect of independent variables (market risk premium, size, B / M, profitability, and investment) towards the excess return variable of companies listed in the LQ-45 index over the three consecutive years of 2013-2015 periods. This research used quantitative data by involving lots of time (time series) with many samples (cross section) or called panel data (Gujarati & Porter 2012). The study used secondary data of companies obtained from the company's financial statements listed in the LQ-45 index over the three consecutive years of 2013-2015 periods.

The measurement scale used in the study was ratio scale. The data collection procedure used in the research was as follows: first, determining the required data according to the variables measured in this study; second, collecting secondary data from the data provider's site; third, processing raw data obtained from the data provider's site that matches with need analysis; and fourth, performing data tabulation in Microsoft Excel. This research used multiple linear regression method to measure the dependent variable correlation with five independent variables (Five-factor model) and three variables (Three-factor model).

3 RESULT AND DISCUSSION

The regression equation in this table shows the results of regression testing of Five-Factor Model as excess return is dependent variable, and independent variables remain constant.

Table 1. The result of the Fama & French Five-Factor Model Regression Testing

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.00</td>
<td>1.43</td>
<td>0.06</td>
</tr>
<tr>
<td>RMRF</td>
<td>0.95</td>
<td>9.56</td>
<td>0.00***</td>
</tr>
<tr>
<td>SMB</td>
<td>-0.33</td>
<td>-3.23</td>
<td>0.00***</td>
</tr>
<tr>
<td>HML</td>
<td>0.18</td>
<td>2.70</td>
<td>0.01***</td>
</tr>
<tr>
<td>RMW</td>
<td>0.00</td>
<td>0.03</td>
<td>0.98</td>
</tr>
<tr>
<td>CMA</td>
<td>0.17</td>
<td>3.30</td>
<td>0.00***</td>
</tr>
</tbody>
</table>

*** Significance level at 1%.

\[
\text{RIRF} = 0.00 + 0.95(\text{RMRF}) - 0.33(\text{SMB}) + 0.18(\text{HML}) + 0.18(\text{RMW}) + 0.17(\text{CMA})
\]

This equation has a constant value of 0.00 which signifies that if all independent variables are considered constant then excess return (Ri-Rf) will increase by 0.00. The coefficient (Rm-Rf) has a value of 0.95 which shows that each variable (Rm-Rf) has increased or decreased by 1 point. Thus, the variable (Ri-Rf) will increase or decrease by 0.95 points with the assumption that other variables remain constant.

The coefficient (SMB) has a value of -0.33. This shows that each variable (SMB) has an increase or decrease by -0.33 points with the assumption that other variables remain constant.

The coefficient (RMW) has a value of 0.00. This shows that each variable (RMW) has increased or decreased by 1 point. Then, the variable (Ri-Rf) will increase or decrease by -0.00 points with the assumption that other variables remain constant.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.00</td>
<td>1.33</td>
<td>0.31</td>
</tr>
<tr>
<td>RMRF</td>
<td>0.93</td>
<td>15.41</td>
<td>0.00***</td>
</tr>
<tr>
<td>SMB</td>
<td>-0.27</td>
<td>-6.95</td>
<td>0.03**</td>
</tr>
<tr>
<td>HML</td>
<td>0.15</td>
<td>2.65</td>
<td>0.10*</td>
</tr>
</tbody>
</table>

*** Significance level at 1%, ** Significance level at 5%, * Significance level at 10%

Table 2 shows that market risk premium and book-to-market equity have a significant positive effect on excess return. While size has a significant negative effect to excess return. Ri-Rf = 0.00 + 0.93 (RM-Rf) - 0.27 (SMB) + 0.15 (HML). Constant has a value of 0.00. This shows that if all independent variables are considered constant then the excess return (Ri-Rf) will increase by 0.00. The coefficient (Rm-Rf) has a value of 0.93. This shows that each variable (Rm-Rf) has increased or decreased by 1 point. Thus, the variable (Ri-Rf) will increase or decrease by 0.93 points with the assumption that other variables remain constant.

The coefficient (SMB) has a value of -0.27. This indicates that each variable (SMB) has an increase or...
decrease of 1 point. Thereby, the variable (Ri-Rf) will increase or decrease by -0.27 points with the assumption that other variables remain fixed. The coefficient (HML) has a value of 0.15. This shows that each variable (HML) has an increase or decrease of 1 point. Then, the variable (Ri-Rf) will increase or decrease by 0.15 points assuming the other variable remains constant.

4 CONCLUSION

Eviews 8 software was used for data processing of this research. Based on simultaneous test result, using F test, it was obtained that independent market risk (Rm-Rf), size (SMB), book-to-market (HML), profitability (RMW), and investment (CMA) simultaneously affect the portfolio returns formed on the basis of stocks listed in the LQ-45 Index over the January 2013 - December 2015 period. Judging from the coefficient of determination, the 5FF model can describe the change of return equal to 58.21% and the 3FF model can describe return change equal to 54.91%.

This study also performed the regression test per portfolio. Out of a total of 18 portfolios, only 2 portfolios show the coefficient of determination of the 3FF model is higher than the 5FF model. The coefficient of determination of the 5FF model for all portfolios is in a range 37% - 83%, while for the 3FF model is 24% - 81%. For companies that are in the consumer goods sector, this research can be used for consideration to make decisions about future company performance and prevent the company from the possibility of being in financial distress.

In addition, these factors can also be used for consideration for Malaysian, Thailand, Singapore, Vietnam, and Philippine companies in predicting future company performance and the possibility of the company being in financial distress. Based on the coefficient of determination, we can observe the ability of each model in describing the return. The coefficient of determination is only as high as 58.21% for the 5FF model and 54.91% for the 3FF model. While the coefficient of determination of the 5FF model for the test per portfolio is in a range of 37% - 83%, and for the 3FF model is 24% - 81%. In addition, if observed further and calculated its average, the coefficient of determination for the portfolio of small size companies is higher than large size companies which indicate the 5FF and 3FF models have not been able to explain the large firm return accurately.

Therefore, it is advisable for the next researcher to add some factors to be used as independent variables, in order to describe the return better. This study also shows that in the selection of stock investments or the establishment of a portfolio, there are several factors which are characteristics of the company that can be considered by investors to earn a higher return. These factors include; firm size (calculated by market capitalization), book-to-market ratio, profitability level, and level of company investment.

REFERENCES