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2014 **THE EFFECT OF FIRM CHARACTERISTICS ON INTELLECTUAL
CAPITAL DISCLOSURE ON SERVICE COMPANIES LISTED IN
INDONESIA STOCK EXCHANGE
PERIOD 2008-2012**



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Accounting

Proposed As One Requirement to Achieve Economic Bachelor Degree

MINISTRY OF EDUCATION AND CULTURE

SRIWIJAYA UNIVERSITY

ECONOMIC FACULTY

2014

APPROVAL PAGE OF COMPREHENSIVE EXAMINATION

**THE EFFECT OF FIRM CHARACTERISTICS ON INTELLECTUAL
CAPITAL DISCLOSURE ON SERVICE COMPANIES LISTED IN
INDONESIA STOCK EXCHANGE
PERIOD 2008-2012**

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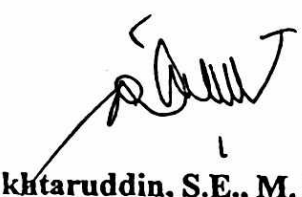
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**THE EFFECT OF FIRM CHARACTERISTICS ON INTELLECTUAL CAPITAL
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INDONESIA STOCK EXCHANGE
PERIOD 2008-2012**

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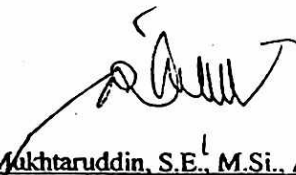
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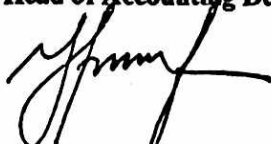
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MOTTO

“فَإِنَّ مَعَ الْعُسْرِ يُسْرًا - إِنَّ مَعَ الْعُسْرِ يُسْرًا.”

(Qs. Al-Insyirah: 5-6)

“Do your best and let God do the rest.”

(Ben Carson)

“When you want something, all the universe conspire in helping you to achieve it.”

(Paulo Coelho)

“Tidak ada pelaut ulung yang dilahirkan dari samudera yang tenang, tetapi ia akan dilahirkan dari samudera yang penuh terpaan badai, gelombang dan topan.”

(D Farhan Aulawi)

“Luck is what happens when preparation meets opportunity.”

(Seneca)

STATEMENT OF RESEARCH INTEGRITY

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Is truly the result of my work under guidance from advisors. There is no results' work of other people that I wrote without mentioning the original sources.

I made this statement in a good faith and if someday it turns out that my statement is not true then I will be willing to accept sanctions in accordance with the regulation, including the cancellation of my degree.

Inderalaya, June 15, 2014

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PREFACE

Praises be to Allah for His mercy and grace, so that the writer could successfully complete the undergraduate thesis entitled “The Effect of Firm Characteristics on Intellectual Capital Disclosure on Service Companies Listed in Indonesia Stock Exchange Period 2008-2012”. This undergraduate thesis is submitted to fulfill one of the requirements to achieve Economic Bachelor Degree in Sriwijaya University. This undergraduate thesis examines the effect of firm size, firm age, type of industry, listing status, and managerial ownership in intellectual capital disclosure.

This undergraduate thesis divided into six chapters; therefore, it would be easier for readers to understand the whole information. The first chapter discussed about the background, problem, objective, and benefits of research. In the second chapter, all related theories, literature reviews, previous researches, theoretical framework, and hypotheses that were used as basis for evaluating research problem in this study are described. In the third chapter, the readers will find the methodology used in this research. In fourth chapter, data of companies and variables are described. The fifth chapter consists of the results of data analysis relating to the object of research. The last chapter concludes everything from the whole research and provided recommendation as inputs for further researcher.

The writer is well aware that in writing this undergraduate thesis is far from perfect in terms of both technical and scientific, that is all of the capabilities and limitations resulting from researcher’s knowledge. Therefore, the writer really allows all readers to give their suggestion which can improve its content in order to be made as one of the good examples for the further undergraduate thesis.

Writer,

Ria Sundari

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The first gratefulness is delivered to The Almighty Allah who has been giving His blessing and mercy to the writer to complete the script entitled "The Effect of Firm Characteristics on Intellectual Capital Disclosure on Service Companies Listed in Indonesia Stock Exchange Period 2008-2012". The writer would like to give her grate gratitude to:

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6. Writer's best friends, Gusna W Syahputri, Masayu Silvia, and Tri Apri Yanti who have shared joy and sorrow during our four years.

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Finally, the writer hopes this undergraduate thesis can provide a benefit to many parties.

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Ria Sundari

ABSTRACT

The Effect of Firm Characteristics on Intellectual Capital Disclosure on Service
Companies Listed in Indonesia Stock Exchange
Period 2008-2012

Composed By:

Ria Sundari

Dra. Hj. Kencana Dewi, M.Sc., Ak
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Intellectual capital disclosure is a report issued by company that is aimed to show the true value of company in order to sustain competitive advantage. This study analyzes the effect of firm characteristics on company's intellectual capital disclosure. Independent variables used in this study are firm size, firm age, industry type, listing status and managerial ownership. While the dependent variable is intellectual capital disclosure. The data used are secondary data from Indonesia Stock Exchange i.e. annual report of services companies listed in Indonesia Stock Exchange period 2008-2012. Sample is selected by purposive sampling technique Among 226 service companies listed in Indonesia Stock Exchange period 2008-2012, there are 146 service companies meet the criteria. In analyzing data, multiple linear regression with dummy variable is used.

The result of analysis shows that firm size, firm age, and listing status affect intellectual capital disclosure significantly. While the type of industry and managerial ownership does not affect intellectual capital disclosure significantly. The limitations of this research are independent variable that is limited to firm characteristics without involving external factors of firm and assessment of intellectual capital disclosure is subjective because using content analysis in providing the code on each item of intellectual capital disclosed

Keywords: Intellectual Capital Disclosures, The size of the Company, Age Company, Type of Industry, Listing Status, Managerial Ownership.

ABSTRAK

The Effect of Firm Characteristics on Intellectual Capital Disclosure on Service Companies Listed in Indonesia Stock Exchange Period 2008-2012

Oleh:
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Pengungkapan modal intelektual merupakan laporan yang disediakan oleh perusahaan untuk menunjukkan nilai perusahaan agar dapat mempertahankan keunggulan kompetitifnya. Penelitian ini menganalisis pengaruh karakteristik perusahaan terhadap pengungkapan modal intelektual. Dalam penelitian ini, variable independen yang digunakan adalah ukuran perusahaan, umur perusahaan, tipe industri, status listing dan kepemilikan manajerial. Sedangkan variable dependen dalam penelitian ini adalah pengungkapan modal intelektual. Data yang digunakan dalam penelitian ini adalah data sekunder dari Bursa Efek Indonesia yaitu annual report perusahaan jasa yang listing di Bursa Efek Indonesia pada tahun 2008-2012. Sampel dipilih dengan menggunakan metode purposive sampling. Dari 226 perusahaan jasa yang terdaftar di Bursa Efek Indonesia pada tahun 2008-2012, ada 146 perusahaan yang memenuhi kriteria yang telah ditentukan. Metode analisis data yang digunakan pada penelitian ini adalah regresi linear berganda dengan variable dummy.

Hasil analisis menunjukkan bahwa ukuran perusahaan, umur perusahaan, dan status listing berpengaruh signifikan terhadap pengungkapan modal intelektual. Sedangkan tipe industry dan kepemilikan manajerial tidak berpengaruh signifikan terhadap pengungkapan modal intelektual. Keterbatasan dalam penelitian ini yaitu variable independen yang hanya mencakup karakteristik perusahaan tanpa melibatkan faktor eksternal dan penilaian pengungkapan modal intelektual bersifat subjektif karena menggunakan metode content analysis dalam memberikan nilai pada setiap item modal intelektual.

Kata kunci: Pengungkapan Modal Intelektual, Ukuran Perusahaan, Umur Perusahaan, Tipe Industri, Status Listing, Kepemilikan Manajerial.

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LIST OF CONTENTS

	Page
TITLE PAGE	i
COMPREHENSIVE EXAM APPROVAL PAGE	ii
SCRIPT APPROVAL PAGE	iii
MOTTO	iv
STATEMENT OF RESEARCH INTEGRITY.....	v
PREFACE	vi
ACKNOWLEDGEMENT.....	vii
ABSTRAK	ix
ABSTRACT	x
RESEARCHER RESUME	xi
LIST OF CONTENT.....	xii
LIST OF TABLES	xiv
LIST OF FIGURES	xv
LIST OF APPENDICES	xvi
CHAPTER I. INTRODUCTION	1
1.1. Research Background	1
1.2. Research Problem	9
1.3. Research Objective	9
1.4. Research Benefit	10
1.5. Systematics of Writing	11
CHAPTER II. LITERATURE STUDY	13
2.1. Fundamental Theory	13
2.1.1. Signaling Theory	13
2.2. Theoretical Description	14
2.2.1. Definition of Intellectual Capital.....	14
2.2.2. Components of Intellectual Capital.....	15

2.2.3. Intellectual Capital Disclosure.....	17
2.2.4. Firm Characteristics.....	20
2.3. Previous Research	23
2.4. Theoretical Framework	25
2.5. Hypothesis	26
2.5.1. Firm Size and Intellectual Capital Disclosure.....	26
2.5.2. Firm Age and Intellectual Capital Disclosure.....	26
2.5.3. Type of Industry and Intellectual Capital Disclosure.	27
2.5.4. Listing Status and Intellectual Capital Disclosure.....	28
2.5.5. Managerial Ownership and Intellectual Capital Disclosure	28
CHAPTER III. RESEARCH METHODOLOGY	30
3.1. Population and Sample	30
3.2. Data Type and Source	31
3.3. Data Collecting Method	31
3.4. Variable and Measurement	32
3.4.1. Independent Variable –Firm Size	32
3.4.2. Independent Variable – Firm Age	33
3.4.3. Independent Variable – Type of Industry	33
3.4.4. Independent Variable – Managerial Ownership	35
3.4.5. Independent Variable – Listing Status	36
3.4.6. Dependent Variable – Intellectual Capital Disclosure	36
3.5. Analysis Technique	38
3.5.1. Descriptive Statistics Analysis	38
3.5.2. Classical Assumptions Test	39
3.5.3. Regression Analysis	41
CHAPTER IV. DESCRIPTION OF SAMPLE DATA	44
4.1. Description of Research Object	44
4.2. Description of Research Variable.....	45
4.2.1. Firm Size	45

4.2.2. Firm Age.....	48
4.2.3. Type of Industry.	50
4.2.4. Managerial Ownership	52
4.2.5. Listing Status.....	53
4.2.6. Intellectual Capital Disclosure	54
CHAPTER V. RESULT AND DISCUSSION	56
5.1. Data Analysis	56
5.1.1. Descriptive Statistics Analysis	56
5.1.2. Classical Assumptions Test	59
5.1.2.1. Multicollinearity Test	59
5.1.2.2. Heterocedastisity Test	60
5.1.2.3. Normality Test	61
5.1.2.4. Autocorrelation Test	63
5.1.3. Multiple Regression Analysis	64
5.1.3.1. Coefficient of Determination (R^2)	65
5.1.3.2. Simultaneous Significant Test (F-Test)	65
5.1.3.3. Partial Significant Test (t-Test)	66
5.1.4. Hypothesis Test	69
5.2. Discussion	73
CHAPTER VI. CONCLUSION	83
5.1. Conclusion	83
5.2. Limitation	84
5.3. Suggestion	84
REFERENCES	86
APPENDICES	90

LIST OF TABLES

Table	Text	Page
Table 3.1.	Criteria of Intellectual Capital Disclosure Scoring	32
Table 3.2.	Industry Classification by GICS.....	34
Table 3.3.	Service Industry Classification	35
Table 3.4.	Intellectual Capital Disclosure Indicators	37
Table 3.5.	Operational Variable	38
Table 4.1.	Selection of The Sample Size.....	44
Table 4.2.	Firm Size Classification	45
Table 4.3.	Criteria of Firm Size	47
Table 4.4.	Firm Age Classification.....	49
Table 4.5.	Classification of Type of Industry.....	51
Table 5.1.	Descriptive Statistics Analysis.....	56
Table 5.2.	Result of Multicollinearity Test.....	60
Table 5.3.	One-Sample Kolmogorov-Smirnov Test.....	63
Table 5.4.	Auto Correlation Test Result.....	64
Table 5.5.	Coefficient of Determination.....	65
Table 5.6.	F-Test.....	66
Table 5.7.	Output of Regression Analysis.....	67

LIST OF PICTURES

Figure	Text	Page
Figure 2.1.	Theoretical Framework.....	25
Figure 5.1.	Scatterplot	61
Figure 5.2.	Normal Probability Plot.....	62
Figure 5.3.	Histogram.....	62

LIST OF APPENDICES

Appendix	Text	Page
Appendix 1.	List of Sample Companies	90
Appendix 2.	Data of Firm Size.....	94
Appendix 3.	Firm Age.....	101
Appendix 4.	Type of Industry.....	105
Appendix 5.	Managerial Ownership.....	109
Appendix 6.	Listing Status.....	113
Appendix 7.	Intellectual Capital Disclosure.....	117

CHAPTER I

INTRODUCTION



1.1. Research Background

Intellectual capital is viewed as a very important role in creating and sustaining competitive advantage and value to a company. Especially for service companies that depend their activities in running the business on their intellectual capital. According to Kuryanto (2008), now, the companies have to change their business strategy from labor-based business to knowledge-based business. The companies with knowledge-based business apply the concept of knowledge management in charge of looking for information on how to select, manage, and utilize resources efficiently. Special attention to the company's intellectual capital can be appropriate solution to solve the problem.

In the era of globalization, the development of technology increases the competition among enterprises. This condition is being a challenge and a threat for the existence of the company. Company should be able to choose the right strategy in order to survive in the competition. According to Kuryanto (2008), there is a phenomenon that occurs in a society signed by a shift in the type of service to industrialized or knowledge societies. These conditions encourage the companies to look for strategies that can be used to solve the problem.

In a knowledge-based company, the conventional capital resources, financial resources and other physical assets become less important than capital based on knowledge and technology. This condition was happened in service companies, the services that they offer rely on their intellectual capital. Service companies have to increase their intellectual capital in order to create the value of company and sustain the competitive advantage. Based on that, physical assets can not give more value to service companies if without proper management by the human resources of the company. Therefore, the attention to physical assets can not be used to anticipate and adjust the changes in knowledge and technology that increase rapidly.

The strategic role of intellectual capital is as a company's potential to increase the competitive advantage that is might be not owned by other companies or difficult to be imitated by other competing companies. Intellectual capital with all of their knowledge and technology will be able to anticipate and adapt all forms of uncertainties that could threats the company's existence. Such conditions can be benefit in order to enhance firm's value through profit creation, strategic positioning (market share, leadership, and reputation), technological innovation, customer loyalty, costs reduction, and the increasing of productivity.

According to Yuniasih (2010) intellectual capital is an emerging topic in recent years in Indonesia, the phenomenon of intellectual capital began to flourish, especially after the advent of PSAK No. 19 on intangible assets. According to PSAK No. 19, intangible assets are identifiable non-

monetary assets and has no physical form and owned to use in the production or delivery of goods or services, leased to others, or for administrative purposes. In paragraph 09 in the statement mentioned examples of intangible assets, such as science and technology, design and implementation of new processes or systems, licenses, intellectual property, market knowledge and trademarks (including brand and product publicity title). PSAK No.19 has alluded to the intellectual capital although not directly. It indicates that the intellectual capital has received attention. However, companies in Indonesia have no more attention to the three components of the intellectual capital (human capital, structural capital, and customer capital). According to Abidin (2000), the firms in Indonesia tend to use conventional based business in building the business which product produced is still poor of technological content. In fact, in order to compete in the era of knowledge-based business, those three components of intellectual capital required to create value added of the company.

Purnomosidhi (2006) mentions that research on intellectual capital disclosure practices and the influence of corporate governance on intellectual capital disclosure in the annual reports of public companies is interested to conduct in the context of Indonesia due to the following:

1. Depperindag, BPPT, and the Treasury work together in reviewing tax incentives for industries/investors who do research and development (R & D) in Indonesia. Providing incentives for the industry intended to encourage the businesses to enterprise

innovation of activities and R & D so as to attract foreign investors to enter Indonesia.

2. Based on a global survey conducted by Taylor and Associates in 1998, quoted by Williams (2001) turns on issues of intellectual capital disclosure is one of the 10 (ten) types of information which user needs.
3. Indonesian Business World no longer has a competitive advantage. Indonesia's business rank is far below Malaysia and Thailand. The low competitiveness due to several factors, such as low productivity of human resources. Thus, it can be said that the Indonesia's human resources is still less able to compete at the global level because of lack of mastery and application of technology.

According to Statement of Financial Accounting Concepts, the purpose of financial reporting is to provide financial information about the reporting entity that is useful to potential investors and other creditors in making decisions about providing resources to the entity. But according to Oliveira et al (2005), the traditional financial statement has lost its relevance as an instrument of decision makers. Mouritsen et al (2004) found a large gap between market value and book value disclosed as result from the failure of company in disclosing hidden value in its annual report. Canibano, et al (2000) stated that the quality of financial reporting can be improved by increasing the intellectual capital information. Therefore, intellectual capital

disclosure in the company's annual report has become an interesting theme, because intellectual capital is believed as driving factor and the creator of firm value (Ulum, 2011).

Various previous researches have been conducted to examine the factors influencing the disclosure of intellectual capital on companies in annual reports. Artinah (2013) revealed that ownership concentration and firm size has a positive influence on the disclosure of intellectual capital. While, the independent variable such as commissioner, leverage, and firm age has no significant effect on the disclosure of intellectual capital.

In the research of Bukh et al (2005), managerial ownership has significant effect on intellectual capital but firm size and firm age has no effect on intellectual capital disclosure. While, in the research of Bruggen et al (2009), firm size and type of industry has positive effect on intellectual capital disclosure. The research conducted by Wijana (2013) found the inconsistent effect of type of industry on intellectual capital disclosure. Abdolmohammadi (2005) provided evidence of the relation between type of industry and intellectual capital disclosure in annual reports of companies in America. White et al (2005) found positive effect of firm size on intellectual capital disclosure but Bukh et al (2005) did not find the effect of firm size on intellectual capital disclosure.

The inconsistent of some research results is suspected as a trigger of varying degrees of intellectual capital disclosure of the company. Therefore,

it is necessary to conduct further research in order to obtain consistency findings when applied to different environment conditions.

Firm Characteristics studied in this research include firm size, firm age, type of industry, managerial ownership and foreign listing status. Those five independent variables are used in this study because they are considered having significant effect on intellectual capital disclosure. Firm size can be calculated from the total assets owned by the company (Bruggen et al, 2009). The greater the total assets owned by the company means the greater the size of the company. Large companies certainly have great intellectual capital as well the large companies tend to reveal all matters relating to the company's operations and transparent in disclosing information relating to the company as well the intellectual capital disclosure.

Another factor that is thought to be a factor influences the disclosure of intellectual capital is firm age. Firm age shows the company's ability to exist and compete in the business world. Those company's abilities are supported by a high intellectual capital. The company that is able to exist for a long time or live longer is a company that makes knowledge as their capital. Thus, older companies will reveal much more information of intellectual capital. In addition, Widiastuti (2002) stated that the older-old company has more experience then will be more aware of the needs of their constituents of company's information.

In addition, the type of industry is also one of the determinants of intellectual capital disclosure. Industry type is a characteristic that is owned by a company in running the business. Different type of industries allow for a difference intellectual capital disclosure level because the company that has the type to rely on the ability of intellectual capital is more likely to reveal their intellectual capital in order to show the true value of the company. In this research, the type of industry in this study is based on intellectual capital intensity measured by the GICS (Global Industry Classification Standard) that was used by global community financial. GICS is a system developed by Morgan Stanley Capital International (MSCI) and Standard & Poor's (S & P) to be used by global financial community. The standard divided industries into two group, High-IC intensive industries and Low-IC intensive industries Because the standard is global, it is expected can also be used on companies in Indonesia..

Managerial ownership is also important factor influences intellectual capital disclosure. If the company has high managerial ownership then the managers will give more attention of stakeholder's gain. With managerial ownership, managers will feel as the owner of the firm then they will act also as the owner of firm and effort much for what the owner needs. The more shares owned by management, the higher their motivation to work and effort in increasing their intellectual capital in order to increase firm value. In this case, management will disclose more information of intellectual capital as the information that the investors need.

Companies that do a listing in some countries face scrutiny from a broader group of stakeholders and must incorporate certain aspects of other state regulations to the annual report. Companies which do multiple listing will face the increasing demand for information relating to the management of intellectual capital of some groups of stakeholders interested in the intellectual capital. It can be said, companies that do a listing in some countries will disclose more about intellectual capital in order to give the information that user need.

In this research, the measurement of intellectual capital disclosure uses the index number by three point scale as the quality criteria for scoring the disclosure index (Guthrie and Abeysekera, 2006; Sujana and Abeysekera, 2007). Intellectual capital disclosure consist of structural capital, relational capital and human capital. Specifically, Intellectual capital disclosure explain some information such as costumer loyalty, the competencies of employee, the training for employee in order to increase competencies and knowledge related to their job, and innovation of networking and information system.

Inspired by those facts and circumstances, researcher is interested in conducting a research entitling **"The Effect of Firm Characteristics on Intellectual Capital Disclosure on Service Companies Listed in Indonesia Stock Exchange Period 2008-2012"**.

1.2. Research Problem

Based on the background above, the problem statements are as follows:

1. How does firm size affect the intellectual capital disclosure on service companies listed in Indonesia Stock Exchange 2008-2012?
2. How does firm age affect the intellectual capital disclosure on service companies listed in Indonesia Stock Exchange 2008-2012?
3. How does type of industry affect the intellectual capital disclosure on service companies listed in Indonesia Stock Exchange 2008-2012?
4. How does listing status affect the intellectual capital disclosure on service companies listed in Indonesia Stock Exchange 2008-2012?
5. How does managerial ownership affect the intellectual capital disclosure on service companies listed in Indonesia Stock Exchange 2008-2012?

1.3. Research Objective

Based on the problem formulation described above, this study has the following objectives:

1. To determine the effect of firm size on the intellectual capital disclosure of service companies listed in Indonesia Stock Exchange 2008-2012.
2. To determine the effect of firm age on the intellectual capital disclosure of service companies listed in Indonesia Stock Exchange 2008- 2012.

3. To determine the effect of type of industry on the intellectual capital disclosure of service companies listed in Indonesia Stock Exchange 2008-2012.
4. To determine the effect of listing status on the intellectual capital disclosure of service companies listed in Indonesia Stock Exchange 2008-2012.
5. To determine the effect of managerial ownership on the intellectual capital disclosure of service companies listed in Indonesia Stock Exchange 2008-2012.

1.4. Research Benefit

The research is expected to provide benefits to various parties as follows:

1. **Company**

The results of this study can be used as reference for the company to determine the level of intellectual capital disclosure of service companies and to know empirical evidence about the factors that affect intellectual capital disclosure.

2. **Academics**

The results could be used as a reference for future studies related to intellectual capital disclosure.

1.5. Systematics of Writing

Systematics of writing is a brief explanation of the contents for each chapter in this script. In order to give clear description of this study, the author divided it into six chapters, as follow :

CHAPTER I INTRODUCTION

In this chapter, author discussed about the background, problem, objective, and benefits in conducting research.

CHAPTER II LITERATURE STUDY

In this chapter, author described some related theories, previous researches, theoretical framework, and hypotheses that were used as basis for evaluating research problem in this study.

CHAPTER III RESEARCH METHODOLOGY

In this chapter, author discussed data sources, data collecting method, population and sample, operational definition and measurement of variables, and analysis techniques that were used to explain and address research problem.

CHAPTER IV DESCRIPTION OF SAMPLE DATA

In this chapter, author discussed research object, research data and variable used in this study in more detail.

CHAPTER V RESULTS, FINDINGS AND DISCUSSION

In this chapter, author discussed the results of data analysis relating to the object of study such as firm size, firm age, type of industry, managerial ownership and intellectual capital disclosure that were obtained from fact book and annual reports of service companies listed on Indonesia Stock Exchange during 2008 - 2012.

CHAPTER VI CONCLUSION AND RECOMMENDATION

In this chapter, author made conclusion from the results and research discussion obtained, as well as expressed the limitations faced during doing research. Author also provided recommendation as inputs for some related parties.

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