

The Influence of Talent Factors on Business Performance

Fanny Soewignyo
Tonny Irianto Soewignyo

Faculty of Economics
Universitas Klabat, Indonesia

Abstract

To contribute to the debate concerning performance measurement, this study investigated some talent factors that can influence business performance of Indonesian finance industry and to provide a framework by which business leaders could assess their current management capabilities. Using purposive sampling, 56 finance companies listed on Indonesia Stock Exchange in 2012 were selected. Corporate governance aspects were measured by employing 12 talent factors and business performance was measured using profit per employee, revenue per employee, and market capitalization per employee. 12 hypotheses were tested using multiple regression analysis. The authors concluded on 2 things. Firstly, the greater the number of audit committee members, the higher the profit per employee and secondly, higher remuneration for directors and commissioners induced better business performance, as measured by three indicators. However, larger number of employees worsens profit per employee, revenue per employee, and market capitalization per employee.

Keywords: *Business performance, corporate governance, market capitalization per employee, profit per employee, revenue per employee, talent factors.*

Introduction

Indonesia's finance industry is dominated by banking sector, which represents about 80 percent of finance industry's total assets. Other players in the finance industry within the market have insignificant share (International Monetary Fund, 2012). Finance industry in Indonesia is a high potential industry for foreign investment besides consumer goods industry, light industry, property and infrastructure. Moreover, as the new entrant into emerging markets, Indonesia is establishing itself as a growing economy with germinating sources of talent. (Kelly Services, Inc., 2013). Indonesia is an interesting case for examining the the influence of talent factors on business performance. As reported by Thomas White Global Investing (2010), the global recession that devastated economies worldwide did not wreak as much havoc in Indonesia. The country kept growing at a healthy rate, making Indonesia one of the fastest growing economies in the G20 League of Nations, which confirms Indonesia's status as a pre-

mier emerging economy. The government of Indonesia has adopted short-term (2004-2009) and long-term (2010-2025) industrial development plans to transform Indonesia into an industrialized economy (Frost and Sullivan, 2010).

Finance industry is one of the knowledge intensive industry, however, this industry face the difficulty of limited source of suitable talent within their businesses. Worldwide, the financial services industry is facing a scarcity of talent (PwC, 2012a). High turnover and high recruitment demand with large salary increase are still at rise. Thus far, compensation and benefit become the focus for many corporations (Kelly Services, Inc., 2013). Many companies in the finance industry have asserted that their employees are of vital competitive advantage (Groysberg, 2011). Consequently, as shown by recent findings of PwC global survey, the war for talent is persistent and the talent shortages could hinder business' growth (PwC, 2011). As indicated by Wibisana (2013), finance industry is always in need of talent and the related talent is a crucial challenge in an attempt to implement strategies for regional scale network development. Therefore, talent management becomes a significant issue in Indonesian banking sector. In spite of this, Van der Sluis and Van de Bunt (2009) asserted that even though many organizations have recognized the significance of talent as a powerful force for their success, only some are managing talent strategically.

The motivation for this study came from Bryan (2007), who argued that excellent performance of a number of biggest and the most successful companies over the past decade indicates the value of intangible assets. It becomes imperative to recognize that financial performance increasingly derives from returns on talent. In a competitive environment where talented employees create intangible assets, return on talent is powerful to offer the larger part of new wealth. Therefore, profit per employee is a good proxy for the return on intangibles. Moreover, growth in profits and market capitalization are closely correlated as an increase in profit would increase market capitalization. In addition, Kelly Services, Inc. (2013) indicated that talent management is still a main concern in many organizations. Correspondingly, Harnish (2006) asserted that in this decade, revenue per employee should drive business leaders' decision. Based on these arguments, this study considered profit per employee, revenue per employee, and market capitalization per employee in measuring business performance. However, the question that arises is: how do talent factors affect the business performance of Indonesian finance industry.

Being majorly dependent on skilled labor, the finance industry is always in need of talent, as indicated by Kneer (2013). Hence, the purpose of this study was to investigate the influence of intensive talent factors towards finance industry business performance in Indonesia. More specifically, based on a thorough review, no prior study has, theoretically or empirically, examined the twelve talent factors measured by corporate governance aspects to predict business performance as measured by per employee metrics. Per employee metrics are applied in measuring business performance for the reason that they can assess quality as stated by Morgan Stanley (2011) and furthermore, they can give a performance score to each employee. This study is useful to both practitioners and academics in the fields of talent and per employee metrics of business performance.

This paper is divided into five parts. The first part was introduction. The second part is the literature review of studies and research in context of Indonesian finance industry. Hypotheses are also developed in this section. The third part is research methods. The fourth part is findings and results. The fifth part is the conclusion, which states the outcomes of this research.

Literature Review and Theoretical Frameworks

Talent Factors

Talent is now claimed as a significant driver of company performance and competitive advantage. According to Mariner7.com. (n.d.), since 1990's the main basis of competitive advantage had shifted from tangible to intangible assets such as talent, brands, and intellectual capital. Talent has obviously emerged as a major source of competitive advantage and a critical driver of company performance. The incremental value of talented people grows continuously as economies become more knowledge based.

Many of finance industry companies reveal that their employees are an important competitive advantage and some companies manage talent proactively to their advantage. However, the research of Groysberg (2011) that focused on the challenges of managing talent within professional service firms, including investment banking, brokerage, and other finance industry confirms that the excellent performance of employees in one company does not guarantee the same level of performance in the other. As argued by Gibson (2012), the interchange between talent and work has evolved rapidly in the 21st century; therefore businesses must observe talent challenges appropriately. Talent supply is a critical issue in the fast-growing emerging economies. It is an ongoing problem faced by businesses in Asia. As indicated by PwC (2012c), the ability to hire, develop, and retain talent has become a major point of competitive differentiation in the developing economies.

It is observed that gross domestic product (GDP) is increasingly based on the knowledge, creativity and ability of workers to innovate (Shapiro & Jesse, 2006). The direct contribution of talent to economic value is expanding. As can be seen in modern industries, talent, innovation, and growth are connected and indicated by greater workforce skills and technology intensities. This relationship is forecasted to be strengthened by more than 70 percent by 2020 (Dirks *et al.*, 2010). Despite high level of unemployment and oversupply of job seekers, some companies face shortage of skilled and talented workforce. High level of unemployment does not mean that the talent needed is always available. It is not easy to substitute the loss of critical talent as the shortage of skilled employees continues to grow (Gibson, 2012). Even a large increase in wages will not necessarily lead to many new people ready to fill the jobs. Therefore, according to Groysberg (2011), fair payment to employees is important so as to retain talent. Bryan (2007) asserted that nowadays, intensive talent drives the creation of wealth and must be measured accurately by company management. It is real that so many business leaders change talent strategies in order to solve their problems of skill shortages which could have significant impacts on corporate growth. As customers' needs change rapidly, the workforces and talent needs are changing as well (PwC,

2012b). This study will particularly focus on the following 12 talent factors based on Corporate Governance aspects.

Board of Commissioners Size

According to Indonesian board of commissioners' principles, the size of the board of commissioners must be sufficient to fit the complexity of the business by taking into account the effectiveness of decision-making. The board shall function and be responsible for overseeing and providing advice to the board of directors and ensuring that the company implements Good Corporate Governance (GCG). However, the board is prohibited to participate in making operational decisions. Each member, including the chairman, has equal position. The duty of the Chairman of the Board of Commissioners is to coordinate the activities of the Board of Commissioners (National Committee on Governance, 2006).

Proportion of Independent Commissioners in Board of Commissioners

As stated by National Committee on Governance (2006), the board of commissioners may include commissioners who are not from an affiliated party, known as the independent commissioner. The number of independent commissioners should be such, to ensure that the control mechanism performs effectively and in compliance with laws and regulations. More specifically, Indonesia Stock Exchange (IDX) requires the listed companies to have independent commissioners comprising at least thirty percent (30%) of the composition of the board of commissioners who can be initially assigned in general meeting of shareholders held prior to listing and shall be effective after the shares of the company are listed (Jakarta Stock Exchange Inc., 2004). For banking institutions, *Bank Indonesia Regulation Number 8/14/PBI/2006* regulates that no less than fifty percent (50%) of the number of the board of commissioners shall be independent commissioners (Bank Indonesia, 2006).

Board of Commissioners Meetings

In order to measure the intensity of board of commissioners activity, board of commissioners meetings frequency could be used. As stated in the decision number: KEP-134/BL/2006 dated December 7, 2006, Capital Market and Financial Institutions Supervisory Agency requires that the annual report of every public company must include the discussion of corporate governance implementation that consists of meeting frequency and attendance level of the board of commissioners (Bapepam and LK Rulebook, 2006).

Board of Directors Size

As stated by National Committee on Governance (2006), the composition of board of directors must be of sufficient size that suits the complexity of the business by taking into account the effectiveness of decision making. In addition, Ljubojević and Ljubojević (2008) argue that board size may influence the dynamics in board functions. For instance, a large and diverse board of directors may improve board performance in terms of knowledge and talents. In contrast, this form of board would likely face group

dynamics dilemma, which in turn makes the board less effective. Smaller boards are more efficient compared with boards with more members as it is easier to attain agreements on decision making (Lublin, 2014).

Board of Directors Meetings

The more the meetings of board of directors, the more they are likely to perform their duties in accordance with stockholders' interest to discuss, set strategy, and monitor management activities. However, there are also cost disadvantages associated with the meetings, for example, time, travel expense, and directors' fee (Vafeas in Bathula, 2008). Therefore, the maximum number of meetings must outweigh the associated costs. As an implementation of corporate governance, it is required that board of directors meetings frequency and attendance level must be included in the annual report of every listed company in Indonesia (Bapepam & LK Rulebook, 2006; National Committee on Governance, 2006).

Audit Committee Size

An audit committee (AC) is assigned to give an independent professional advice to the board of commissioners upon the statement or other matters, which are submitted by the board of directors to the board of commissioners, and identify the matters which need the board of commissioners' attention. An independent committee is the one that consists entirely of outside and independent directors (Rebeiz & Salameh, 2006).

The audit committee is at least comprised of three persons, one of whom will be the independent commissioner of the listed company who is also the chairman of the audit committee, while the other members are the external parties who are independent, at least one of whom must be an expert in accounting and/or finance (Capital Market Supervisory Agency, 2004; Jakarta Stock Exchange Inc., 2004). Experience shows that an audit committee is likely to function most effectively with small membership of three to six people (Wallace & Zinkin, 2005).

Proportion of Independent Commissioners in Audit Committee

At least one of the audit committee members must be the independent commissioner of the listed company who is also the chairman of the audit committee, while the other members are independent external parties (Capital Market Supervisory Agency, 2004; Jakarta Stock Exchange Inc., 2004). Moreover, National Committee on Governance (2006) added that for publicly listed companies, state-owned enterprises, province and region-owned companies, companies that raise and manage public funds, companies of which products or services are widely used by public, and companies with extensive influence on environment, the audit committee must be chaired by an independent commissioner and the members may consist of commissioners and or professionals from outside the company.

Audit Committee Meetings

KPMG's Audit Committee Institute in Australia (2008) found that on an average, audit committees met five times a year, and close to five times across all four countries

with insignificant differences between the UK, US, Australia and Canada. In Polish practice according to Szczepankowski (2012), on an average, audit committee met 4.5 times a year. The audit committee invites the management board, the chief financial officer, the certified external auditor, and the head of internal audit in its meeting to discuss any matters deemed confidential by the parties. Furthermore, meeting schedules must be well organized in order that all important issues and key events are addressed throughout the year at the right time (National Audit Office, 2012).

Most researchers use AC meeting frequency as a proxy of diligence (Raghunandan & Rama in Mohiuddin & Karbhari, 2010).

Financial Expert in Audit Committee

All members of audit committee must be financially literate and qualified of understanding the financial reporting issues and complexities evolving from the company's business activities. It is common for a majority of the members to have finance, accounting, or legal backgrounds (Deloitte Development LLC, 2012). This is attributable to the significant responsibility for financial reporting oversight and in response to current challenges and continuing developments in accounting standards setting. As stated by British Columbia Investment Management Corporation (2010), audit committee members should have financial expertise and literacy to ensure the accuracy of accounting and financial report of the company, the existence of adequate financial management control and information system, and to oversee the annual external audit of the company.

Moreover, the survey result of KPMG's Audit Committee Institute in Australia (2008) reported that many respondents said the company discloses at least half of AC members as financial experts. Institutions with this proficiency reported fewer call report amendments, less regulatory violations, fewer employees discharged for fraud or theft, less enforcement action, and less technical exceptions than other organization. In addition, KPMG Audit Committee Institute (2013) found that in light of the rising complexity of the global risk environment and technology change, the audit committee's composition and effectiveness would be better by additional expertise, greater diversity of thinking, background, perspectives, and experiences.

Total Number of Employees

As asserted by Bryan (2007), annual reports are filled with information regarding capital utilization but present insufficient information about the number of employees. Therefore, according to Bapepam and LK Rulebook (2006), annual report of a public company as an important source of information for shareholders and general public in making investment decision is required to discuss the number of employees as well.

Total Employees Cost

Total employee cost includes all forms of payments going to employees in connection with their employment such as salaries, bonuses, and commissions for all employees and managers, but excludes owner's share. (ACA International, 2010). The economic

crises experienced in Western economies shows that low return caused by a fall in the productivity is driven by increase in average employee cost. The analysis indicates that organizations have cut back on new recruitment and have lower number of younger and lower grade employees as businesses look for expert help in managing difficult economic conditions. This may save costs in the short term, however it will certainly affect the availability of talent to fill crucial positions in the long run (PwC, 2012c).

Board of Commissioners and Board of Directors Remuneration

Board of commissioners and board of directors remuneration is an important information regarding the implementation of Good Corporate Governance in Indonesia, which are required to be disclosed in the annual report of publicly listed company (National Committee on Governance, 2006). The principles of corporate governance indicate that the remuneration of commissioners and directors is an important aspect for effective implementation of corporate governance (Oviantari, 2011). According to Talha, Sallehuddin and Masuod (2009), remuneration of directors (executive and non-executive) which includes the basic salary and other monetary or non-monetary benefits received during their tenure, should be included in the corporate governance process.

Non-executive directors are independent directors as they are not directly engaged in operational function but they are given tasks to oversee the executive directors, for example by chairing remuneration committee, audit committee and nomination committee (Talha *et al.*, 2009). In two tier board system like in Indonesia, the function of non-executive directors is conducted by board of commissioners.

Business Performance

Performance measurement is a complex phenomenon, which is related to the objectives of a company. Neerly *et al.*, in Veltri (2009) define performance measure as a metric used to quantify the efficiency and/or the effectiveness of an action. The efficiency measures are productivity measures, variously calculated, but based in any case on accounting measures. The effectiveness measures, a proxy measure of value, can be distinguished into: profitability measures, based on accounting and/or financial data; Market measures based on market data; and mixed measures. A particular case of market measures is the degree by which company market value is exceeding its book value. Each of these categories has its pros and cons. The accounting measures are easy to apply, available, certified by auditors but are focused on past events. Market measures, which take into consideration the economic risk and the economic value of growth opportunities, are not free of criticism, including the minor certainty of the data, due to the fact that political and social events can distort the market values.

Financial ratios are used as a tool to measure financial performance and if calculated accurately and timely, it could provide important information to business owners (Alvarado, 2011). Financial performance analysis is conducted to determine the efficiency and performance of management to ensure that the business is run in a realistic

way, to provide enough returns to its stockholders and maintain at least its market value (Bhunias *et al.*, 2011). Dutta and Reichelstein (2005) find that an optimal performance measure must rely on both accounting variables and stock price. They argue that for the purpose of performance measurement, stock price is not only essential in providing investment incentives, but also for filtering out some variability in investment returns. Barton *et al.* (2010) examine the value of a comprehensive set of performance measures. They find that no single measure dominates around the world. The results suggest that, when it comes to equity valuation, accounting researchers and standard-setters should focus not on what performance measure is best at a given point in time, but on the underlying attributes that investors find most relevant.

Financial performance indicators based on balance sheets, cash flow reports, and income statements will remain the primary metric for assessing a company and its management. However, to improve the capability for wealth creation, corporate executives must adopt the idea of changing financial performance metrics to focus on knowledge intensive people rather than on capital alone. By looking at performance in this new way, business executives will change the internal measurements of performance and hence encourage managers to make better business decisions (Bryan, 2007).

Profit per Employee

Company's real wealth could be created by profit per employee. Therefore, profit per employee becomes a measure for how efficiently a company manages complexity (Bryan, 2007). Evidence from Europe in 2001-2002 revealed that companies who made more money per employee did extremely better than their labor heavy peers. However, the situation has contracted since the credit crisis. Moreover, using simple analysis of US Companies, Markit (2013) found that by outsourcing most of their work they actually moved close to the top of list in terms of profitability per employee.

Revenue per Employee

Financial performance of a service-oriented firm according to Reeve *et al.* (2012) can be assessed using revenue per employee. It measures the efficiency of a firm in generating revenues. The higher revenue per employee indicates efficiency of the firm in generating revenue from its employees. It is important to compare revenue per employee within an industry and over time.

Revenue per employee is measured as the ratio of revenue to the number of employees required at that level of revenue. When making a comparison between two companies, the company with the higher value for revenues per employee would be considered more efficient or productive. Revenue per employee can be used to track the impact of staffing processes on productivity. As staffs are added, the resulting increase or decrease in revenue per employee could help in measuring the changes in output (ACA International, 2010). This concept supports D' Amico (2004) who asserted that revenue per employee is a commonly used measure of management efficiency. It provides an interesting view of how well a company is run. It shows how a company is doing against its competitor and the best run companies have high revenue per employee.

Market Capitalization Per Employee

Market capitalization states the value of a company in the market, that is, for how much the company can be sold in the market. It is a significant means to measure the ability of the market to mobilize capital and to measure the firm size. It indicates the value of a firm by multiplying the number of outstanding stock with the current stock price. Market capitalization is compared with the book value by analysts to assess company's future prospects, whilst institutional investors analyze it as an investment criterion (Yasmin & Yusuf, 2008). It can be used to get a picture of the company's value in the market place. According to Nash (2006), the smartest companies are those where people are engaged, productive, and forward thinking. The stock buying choices of investors create market value of a company and in effect, judging the value of employees. Therefore, Bryan (2007) asserted that market capitalization can be regarded as a function of return on talent. Moreover, to give a performance score to each employee, this study measures market performance by utilizing market capitalization per employee.

Talent and Business Performance

Talent in the workforce continually provides economic benefits at many levels, generates wealth and hence needs to be measured more accurately by business executives (Bryan, 2007; Society for Human Resource Management, 2012). In today's economy, business performance is critically driven by talent. Talent has become the key competitive factor of every business and the incremental value of talented people keep on growing whilst the supply lags behind the demand (Mariner7.com, n.d.). Therefore, every organization must make sure they have the talent needed to achieve the expected performance since talented people could be available but not always in the position where they are needed. The right talent could be somewhere in the world (Craig *et al.*, 2011).

The collaboration of talented people in a company creates intangible value and subsequently increased revenues. More specifically, in thinking intensive companies that rely on the skills of knowledge workers, the average net income per employee is approximately 3.5 times higher than the labor intensive companies and sometimes, even more than 10 times (KPMG, LLP, 2010). According to Bryan (2007), profit per employee focuses on talented people who can produce valuable intangibles and one way to increase a company's profit per employee is to drop unprofitable employees.

By utilizing sample firms listed on New Zealand Stock Exchange over a four year period from 2004 to 2007, Bathula (2008) found that board size is positively associated with firm performance and frequency of board of directors meetings negatively affect firm performance. Likewise, based on a randomly selected sample of 75 companies listed on Bursa Malaysia, Abidin *et al.* (2009) examined the association between board structure and corporate performance, where performance is measured as value added calculated using VAICTM. They found that board size have a positive impact on firm performance.

On the other side, using a sample of 93 non-financial firms listed on Dhaka Stock Exchange in 2006, Rouf (2011) found that there is no significant relationship between board size and firm value measured by return on equity and return of assets as dependent variables. Angaye *et al.* (2009) employed board structure as proxy of corporate governance measured by board size, board composition, ownership structure, leadership structure and duality, board diversity, and CEO nationality status. The empirical findings do not generally indicate any significant associations between the investigated board size and corporate performance measured by profitability as well as other performance measures. Van Ness *et al.* (2010) found board size is positively related to revenue growth. This result implied that larger boards tend to increase revenues. However, outside directors have no significant impact on financial performance.

The management of a limited liability company in Indonesia adopts a two board system, namely the Board of Commissioners and the Board of Directors. Each of which has a clear authority and responsibility based on their respective functions as mandated by the articles of association and laws and regulations. Yet, they both have the responsibility to maintain the company sustainability in the long term and have the same perception regarding the company's vision, mission and values. The Board of Commissioners performs the supervisory and advisory roles, and the Board of Directors performs the executive role (National Committee on Governance, 2006). Responding to the different findings related to board structure and board meetings in the literature, and the two tier board system in Indonesia, the following research hypotheses are set:

H1: Companies with a greater number of board of commissioners members will have greater profit per employee, revenue per employee, and market capitalization per employee.

Total number of board of commissioners members was used to measure board of commissioners size. Net profit divided by total number of employees was used to measure net profit per employee, total revenue divided by total number of employees was used to measure revenue per employee, and market capitalization divided by total number of employee was used to measure market capitalization per employee.

H2: Companies with greater proportion of independent commissioners in board of commissioners will have greater profit per employee, revenue per employee, and market capitalization per employee.

The number of independent commissioners in board of commissioners divided by total number of board of commissioners members was used to measure the proportion of independent commissioners on the board.

H3: Companies with a greater number of board of commissioners meetings will have greater profit per employee, revenue per employee, and market capitalization per employee.

The board of commissioners meeting frequency in 2012 was used to measure number of board of commissioners meetings.

H4: Companies with a greater number of board of directors members will have greater profit per employee, revenue per employee, and market capitalization per employee.

Total number of board of directors members was used to measure board of directors size.

H5: Companies with a greater number of board of directors meetings will have greater profit per employee, revenue per employee, and market capitalization per employee.

The board of directors meeting frequency in 2012 was used to measure the number of board of directors meetings.

The study of Aldamen *et al.* (2011) investigated the relationship of fifteen measures of audit committee characteristics that cover size, meetings, independence and expertise and firm performance during the global financial crisis. They employed percentage price change as market performance measure and return on assets as accounting performance measure. The result reveals that smaller audit committee size with more experience and financial expertise are more likely to be associated with positive market performance.

Using both market and accounting based performance measures of 103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001, Kyereboah-Coleman (2007) found that audit committee size has a positive influence on both accounting (ROA) and market performance measure (Tobin's q). In the overall sample, however, the independence of the audit committee does not show any significant relationship with the performance. Significantly however, the independence of audit committee has a negative effect on Tobin's Q in the Ghanaian and Nigerian samples. Furthermore, the frequency of audit committee meetings has a positive and significant relationship with market based performance measured by Tobin's Q and no relationship with ROA in the overall sample. Likewise, using a balanced panel of 79 New Zealand listed firms, Fauzi and Locke (2012) found that audit committee yield a significant positive relationship with firm performance using Tobin's Q. Kajola (2008) asserted that the relationship between the audit committee and the two performance measures are not statistically significant. Audit committee being occupied by majority of outside members has no influence on the firm's performance. However, the study of Mohd Saat *et al.* (2012) found that audit committee governing increases firm performance when there is high proportion of independent audit committee members with practicing accountant experience on the committee. These findings lead to the following research hypotheses:

H6: Companies with greater number of audit committee members will have greater profit per employee, revenue per employee, and market capitalization per employee.

The composition of audit committee consists of chairman and members was used to measure the number of audit committee members

H7: Companies with greater proportion of independent commissioners in audit committee will have greater profit per employee, revenue per employee, and market capitalization per employee.

The number of independent commissioners in audit committee divided by total number of audit committee members was used to measure the proportion of independent commissioners in audit committee.

H8: Companies with greater number of audit committee meetings will have greater profit per employee, revenue per employee, and market capitalization per employee.

The audit committee meeting frequency in 2012 was used to measure number of audit committee meetings.

H9: Companies with greater proportion of financial expert in audit committee members will have greater profit per employee, revenue per employee, and market capitalization per employee.

The number of financial or accounting experts in audit committee divided by total number of audit committee members was used to measure the proportion of financial experts in audit committee members.

Chhinzer and Ghatehorde (2009) analyzed academic research to investigate the relationship between HR metrics (e.g. headcount, salaries, recruitment) and organizational financial performance (e.g. revenue, costs, profit). They concluded that most firms decrease their workforce through layoffs or downsizing to improve financial performance and rarely react to poor financial performance by increasing its workforce. On the contrary, regardless of their performance or cost related to workforce, companies do not downsize when doing well financially. Based on these conclusions, the following hypotheses are set:

H10: Companies with greater number of employees will have greater profit per employee, revenue per employee, and market capitalization per employee.

Total number of permanent and non permanent employees reported in 2012 annual report was used to measure the number of employees.

H11: Companies with greater total employees cost will have greater profit per employee, revenue per employee, and market capitalization per employee.

Total employees cost is total payment to employees in 2012 such as salaries, wages, benefits, and bonuses.

The study of Oviantari (2011) investigated the relationship between Indonesian board of commissioners and board of directors' remuneration and firm performance using a sample of 100 listed companies throughout the period of 2008-2009. The study found that the return on assets and the remuneration of commissioners and directors shows a negative direction. It could be argued that the negative direction is significant because the observation period is the period of global financial crisis. Therefore, even if the direction is negative, shareholders keep on increasing the remuneration to motivate management to maintain the business processes in a going-concern condition. The study also found that sales positively affect remuneration. On the contrary, the relationship between variable remuneration and earnings per share is not significant. In fact, the principles of corporate governance require that director's remuneration should be linked to corporate performance. In line with that result, using panel data for the 1992-2005 period, Doucouliagos *et al.* (2007) explored the relationship between board of director's pay and performance of Australian banking. The results indicate that Australian directors' pay does not relate to performance with a one year lag. However, with a two year lag, total directors' pay had robust positive association with earnings per share, as well as with ROE. Likewise, the study of Ghosh and Aggarwal (2011) in India focused on the effectiveness of the boards to the firm's performance with the financial data of twenty five companies for seven years. They found that directors' remuneration does not have any significant relationship with firm's profitability. Based on the requirement of corporate governance principles the following hypothesis is set:

H12: Companies with greater board of commissioners and board of directors remuneration will have greater profit per employee, revenue per employee, and market capitalization per employee.

Board of commissioners and directors remuneration was measured by total compensation for commissioners and directors such as salaries, allowances, bonuses, and other facilities. The reason for utilizing total remuneration amount for both commissioners and directors is because some companies do not report the remuneration for commissioners and directors separately.

As far as this study was conducted, there was no previous study found by utilizing intensive talent factors measured by corporate governance aspects specifically and their relationships with either profit per employee, revenue per employee or market capitalization per employee.

Research Methods

Population and sample

The listed finance industry in general offer an ideal area of talent factors research, because: (1) there are reliable data available in the form of published annual reports; (2) the business nature of financial sector is always in need of talent that is heavily relied on skilled labor; (3) the participants of stock exchange are deeply concerned with the corporate governance and performance.

The classification of the industry (banks and non-bank financial institutions) according to IDX is as follows: (1) bank; (2) financial institution; (3) securities company; (4) insurance; (5) investment fund/mutual fund; and (6) others. However, in 2012 there is no company listed under investment/mutual fund classification. Not all companies were used for this study for a variety of reasons. Eighteen companies were excluded from the study due to missing data, degenerated into negative profit and several companies did not submit their annual reports. The final sample of 56 (Bank = 27 companies; Financial Institution = 11 companies; Securities Company = 2 companies; Insurance = 11 companies; Others = 5 companies) used is about 76% of the population and is considered sufficient for the purpose of the statistical analyses.

Data Collection

This study used secondary data: annual reports of the listed finance companies and IDX statistics which are available on the Indonesia Stock Exchange (IDX) website. Campbell and Abdul Rahman (2010) noted that the company has total editorial control over the annual report and it is usually the most widely issued of all public documents produced by the company. There are three dependent variables used in this study to measure business performance that focus on per employee metrics consisting of logarithm of profit per employee, logarithm of revenue per employee, and logarithm of market capitalization per employee. 12 talent factors measured by corporate governance aspects as independent variables were employed. Data needed to measure the 12 talent factors are available in the annual reports as well as revenue and net profit. However, market capitalization data is available in the IDX statistics.

Statistical Analysis

The multiple regression analysis was performed to test the influence of independent variables to dependent variables. The regression models are presented below:

1. Talent factors predict profit per employee.

$$\text{LogNetP} = \beta_0 + \beta_1 \text{BOCSIZE} + \beta_2 \text{PropBOC} + \beta_3 \text{BOCMeet} + \beta_4 \text{BODSIZE} + \beta_5 \text{BODMeet} + \beta_6 \text{ACSIZE} + \beta_7 \text{PropACI} + \beta_8 \text{ACMeet} + \beta_9 \text{PropACF} + \beta_{10} \text{LogTNEm} + \beta_{11} \text{LogTECo} + \beta_{12} \text{LogBoar} + \varepsilon \quad (\text{model 1})$$
2. Talent factors predict revenue per employee.

$$\text{LogReve} = \beta_0 + \beta_1 \text{BOCSIZE} + \beta_2 \text{PropBOC} + \beta_3 \text{BOCMeet} + \beta_4 \text{BODSIZE} + \beta_5 \text{BODMeet} + \beta_6 \text{ACSIZE} + \beta_7 \text{PropACI} + \beta_8 \text{ACMeet} + \beta_9 \text{PropACF} + \beta_{10} \text{LogTNEm} + \beta_{11} \text{LogTECo} + \beta_{12} \text{LogBoar} + \varepsilon \quad (\text{model 2})$$
3. Talent factors predict market capitalization per employee.

$$\text{LogMark} = \beta_0 + \beta_1 \text{BOCSIZE} + \beta_2 \text{PropBOC} + \beta_3 \text{BOCMeet} + \beta_4 \text{BODSIZE} + \beta_5 \text{BODMeet} + \beta_6 \text{ACSIZE} + \beta_7 \text{PropACI} + \beta_8 \text{ACMeet} + \beta_9 \text{PropACF} + \beta_{10} \text{LogTNEm} + \beta_{11} \text{LogTECo} + \beta_{12} \text{LogBoar} + \varepsilon \quad (\text{model 3})$$

where:

LogNetP=	Logarithm of Net Profit per Employee
LogReve=	Logarithm of Revenue per Employee
LogMark=	Logarithm of Market capitalization per employee
BOCSize=	Board of commissioners size
PropBOC=	Proportion of Independent Commissioners in Board of Commissioners
BOCMeet=	Number of Board of Commissioners Meetings
BODSize=	Board of Directors Size
BODMeet=	Number of Board of Directors Meetings
ACSize=	Audit Committee Size
PropACI=	Proportion of Independent Commissioners in Audit Committee
ACMeet=	Number of Audit Committee Meetings
PropACF=	Proportion of Financial/Accounting Expert in Audit Committee
LogTNEm=	Logarithm of Total Number of Employees
LogTECo=	Logarithm of Total Employees Cost
LogBoar=	Logarithm of Board of Directors and Board of Commissioners Remuneration
$\beta_0 =$	Intercept coefficient
$\beta_1, \beta_2, \beta_3, \beta_4,$ $\beta_5, \beta_6, \beta_7, \beta_8,$ $\beta_9, \beta_{10}, \beta_{11},$ $\beta_{12} =$	Coefficient for each of the independent variables
$\varepsilon =$	Error term

Linearity assumption was verified through examination of scatter plots of residuals that indicates linear relationship between the independent variable (s) and the dependent variable. Normal probability plots have given evidence to the normality of data used. The plots appear as a straight line all the way through. These results supported by Chan (2003) that small sample size of $n < 30$ are always assumed as not normal and moderate sample size is in between 30 to 100. With these reasons the sample size of 56 is assumed as normal. Multicollinearity between the independent variables was checked with variance inflation factors (VIFs). The VIF values indicate that multicollinearity is not a problem for this analysis as the VIF values are below the recommended cutoff of 10. The plots of profit per employee, revenue per employee, and market capitalization per employee have no pattern, which implies that no heteroskedasticity caused by these variables. As stated by Gupta (2000), heteroscedasticity implies that the variances of the residuals are not constant.

Findings and Results

Table 1 presents the results of multiple regression analysis. The first regression model of the study with profit per employee as dependent variable shows that the calculated value of F -statistic is 5.648 and the significant F is at p -value of .000. This suggests that the overall model is significant and the adjusted R^2 of the model indicates that

50.4% of the variance in profit per employee can be explained by the 12 talent factor predictor variables.

The second regression model with revenue per employee as dependent variable shows the calculated F -statistic is 8,558 and the significant F is at p -value of .000. This result reveals that the overall model is significant and the adjusted R^2 of the model indicates that 62.2% of the variance in revenue per employee can be explained by the 12 talent factor predictor variables.

The third regression model with market capitalization per employee as dependent variable shows the calculated F -statistic is 5.485 and the significant F is at p -value of .000. This result also suggests that the overall model is significant and the adjusted R^2 of the model indicates that 49.5% of the variance in market capitalization per employee can be explained by the 12 talent factor predictor variables. Each hypothesized talent factor is examined further below.

The empirical results show that $H1$, $H2$, $H3$, $H4$, $H5$, $H7$, $H8$, $H9$, and $H11$ are not supported with p -value > 0.05 . Hence, board of commissioners size, proportion of independent commissioners in board of commissioners, board of commissioners meetings, board of directors size, board of directors meetings, proportion of independent commissioners in audit committee, audit committee meetings, audit committee financial expert, and total employees cost do not have a significant influence on either profit per employee, revenue per employee, or market capitalization per employee. The results support the view in the literature that there is no significant relationship between board size and corporate performance measured by profitability as well as other performance measures (Angaye *et al.*, 2009; Rouf, 2011). However, the results of meeting frequency are not consistent with the finding of Bathula (2008). This study found that board of commissioners meetings, board of directors meetings, and audit committee meetings do not have any significant influence on the three performance measures. Furthermore, the collaboration of talented people through proportion of independent commissioners in the board of commissioners and audit committee as well as the proportion of financial and accounting expert in audit committee do not have any significant influence on the three performance measures. These findings may support the conclusion of Craig *et al.* (2011) that every organization must make sure they have the right talent needed to achieve the expected performance since talented people could be available but not always in the right position where they are needed. However, these results were not in line with KPMG, LLP (2010) that stated the collaboration of talented people in a company creates intangible values and consequently increase revenues. The results are also consistent with the conclusion of Chhinzer and Ghatehorde (2009) related to total employees cost, that regardless of the cost related to workforce, companies do not downsize to do well financially.

Hypothesis 6 predicts that companies with greater number of audit committee members will have greater profit per employee, revenue per employee, and market capitalization per employee. The results provide mixed findings. First, consistent with the expectation, number of audit committee members positively influenced profit per em-

ployee ($\beta = .172, p < .047$). This indicates that the greater the number of audit committee members in the company, the higher the profit per employee. This finding is consistent with previous study by Aldamen *et al.* (2012) who examined the relationship of fifteen audit committee characteristics that cover size and meetings, independence and expertise to firm performance during the global financial crisis. Second, the results show that number of audit committee members do not have a significant influence toward revenue per employee ($\beta = -.010, p < .827$) and market capitalization per employee ($\beta = .094, p < .185$). Hence, this combination of findings partially supports hypothesis *H6* and the findings of Kyereboah-Coleman (2007).

Hypothesis 10 predicts companies with greater number of employees will have greater profit per employee, revenue per employee, and market capitalization per employee. The results show a negative and statistically significant influence of total number of employees towards profit per employee ($\beta = -1.067, p < .000$), revenue per employee ($\beta = -.687, p < .000$), and market capitalization per employee ($\beta = -.963, p < .000$), indicating that business performance measured by profit per employee, revenue per employee, and market capitalization per employee tends to decrease when the number of employees is increased. This finding is in agreement with Chhinzer and Ghatehorde's (2009) findings which showed that most firms decrease their workforce to improve financial performance.

Hypothesis 12 predicts companies with greater board of commissioners and board of directors remuneration will have greater profit per employee, revenue per employee, and market capitalization per employee. The empirical results show that the coefficient for board of commissioners and board of directors remuneration is positive and statistically significant with profit per employee ($\beta = 1.388, p < .000$), revenue per employee ($\beta = .914, p < .000$), and market capitalization per employee ($\beta = .791, p < .000$). Hence, when the board of commissioners and board of directors remuneration increased, profit per employee, revenue per employee, and market capitalization per employee is likely to increase. Thus, hypothesis *H12* is fully supported. Although, these results differ from those studies of Doucouliagos *et al.* (2007), Ghosh & Aggarwal (2011) and Oviantari (2011), however, they are consistent with the principles of corporate governance that directors remuneration should be linked to corporate performance (Oviantari, 2011).

Table 1. Results of Multiple Regression Analysis for Each Performance Measure (H1-H12)

Capitalization	Net Profit	Revenue	Market
	per Employee	per Employee	per Employee
Variables (with hypothesized relationships in parentheses)	Unstandardized β (<i>p</i> -value*)	Unstandardized β (<i>p</i> -value*)	Unstandardized β (<i>p</i> -value*)
(Constant)	.811 (.346)	2.054 (.000)	2.041 (.006)
<i>Hypotheses:</i>			
H1: Board of Commissioners size (+)	-.081 (.272)	.021 (.598)	-.045 (.459)
H2: Proportion of independent commissioners in board of commissioners (+)	-.460 (-.764)	-.087 (.789)	.185 (.712)
H3: Number of board of commissioners meetings (+)	.011 (.191)	.003 (.464)	.008 (.242)
H4: Board of directors size (+)	.037 (.434)	.013 (.603)	.071 (.076)
H5: Number of board of directors Meetings (+)	-.010 (.178)	.000 (.930)	-.009 (.159)
H6: Audit committee size (+)	.172 (.047)	-.010 (.827)	.094 (.185)
H7: Proportion of independent commissioners in audit committee (+)	-.706 (.244)	-.441 (.178)	-.310 (.534)
H8: Number of audit committee Meetings (+)	.010 (.374)	.001 (.905)	.012 (.223)
H9: Audit committee financial expert (+)	-.447 (.149)	-.061 (.713)	-.403 (.117)
H10: Total number of employees ^a (+)	-1.067 (.000)	-.687 (.000)	-.963 (.000)
H11: Total employees cost ^a (+)	-.152 (.371)	-.140 (.128)	.103 (.460)
H12: Board of commissioners and directors remuneration ^a (+)	1.388 (.000)	.914 (.000)	.791 (.000)
R^2 =	.612	.705	.605
Adj. R^2 =	.504	.622	.495
F – value =	5.648	8.558	5.485
Prob. (F)=	.000	.000	.000
No. of companies/observations =	56	56	56
Dependent Variable	LogNetP	LogReve	LogMark

Predictors: (Constant), LogBoar, PropACI, PropACF, PropBOC, BOCMeet, ACSize, ACMeet, BODMeet, BOCSIZE, BODSize, LogTNE, LogTECo

* Significant at the 0.05 level

^a Transformed variables with logarithm

Conclusion

Empirical data from this study provides support for the importance of talent factors in determining Indonesian finance industry performance. The findings from this study have several implications for finance industry employers, regulators, board of commissioners, board of directors, and managers. First, the results provide evidence that the greater the number of audit committee members in the company, the higher the business performance measured by profit per employee. This finding should be particularly informative to regulators and board of commissioners in their evaluation of the desirable size of audit committee. Second, the findings indicate that directors and managers should pay particular attention to the number of employees, as the greater the number of employees, the lesser the business performance. Third, employers should understand that increasing the board of commissioners and board of directors remuneration is needed to improve business performance. Individuals responsible for developing a company's board of commissioners and board of directors remuneration should be mindful of its significance. Finally, these findings provide several contributions to accounting, finance and management academic research. Prior studies have examined the influence of talent factors measured by corporate governance aspects on firm performance, however, none of those studies has, theoretically or empirically, examined the twelve talent factors measured by corporate governance aspects simultaneously to predict business performance measured by the three per employee metrics. The findings obtained are important to be used by the finance industry to give better understanding of performance and its drivers and lead to managerial practices that can improve company performance of this significant sector of economic activity. This study also provides a basic reference and guide to analyze the company performance and as a useful eye-opener for scholars and policy makers.

Limitations of the Present Work and Directions for Future Research

This study is limited in so far as it considers finance companies listed on Indonesia Stock Exchange only and was conducted for only one financial year. To support the robustness of the conclusions to confirm the applicability of the findings of this study, future research can build on this work by investigating data from other industries, other markets, and longitudinal data analysis to better understand which talent factors matter and when they matter most. Despite the possible limitations of using a single nation and one financial year data, the results from this study provide an interesting and valuable insight about potential path for further in depth studies to complement on-the-ground knowledge to make the result more illuminating. Future studies on the current topic are therefore recommended.

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