

ECONOMIC MACRO INFLUENCE STUDY, CAPITAL, AND LIQUIDITY TO FINANCIAL PERFORMANCE AT LOCAL DEVELOPMENT BANK IN INDONESIA BEFORE AND AFTER AREA AUTONOMY

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Abstract : Purpose of this research is to know influence macro economic, capital, and liquidity to financial performance at local development bank (BPD) in Indonesia. This research is research explanatory, with research unit of all (population) Local Development Bank in Indonesia. Based on Indonesia Bank data there are 26 local development bank in Indonesia. Data collecting is done by using secondary data in the form of publication financial statements of local development bank of all Indonesia from the year 1996 until the year 2005 (during 10 years). Financial statements obtained from Indonesia bank head office and research bureau info bank. Research type applied is the causal relation by using census and secondary's data collecting and data analysis done through structural equation model (SEM). Result of this research indicates that : 1) macro variable of chartered investment counsel either before and also after area autonomy shows different result, before area autonomy doesn't have an effect on significant to financial performance, while after area autonomy influential significant; 2) variable capital influential significant to financial performance before area autonomy, while after area autonomy doesn't have an effect on significant; 3) variable liquidity before area autonomy influential significant to financial performance, and after area autonomy doesn't have an effect on significant.

Keyword: macro economic, capital, liquidity, and financial performance.

Introduction

Monetary crisis knocking over Indonesia at in the middle of the 1997 causes at weakening it idr conversion value and not only causes at financial crisis, also causes at politics crisis, safety even at morale crisis. There fore, economic growth becoming not stable. Institution of Standard is one of equipment of defrayal of legal capital to try increasingly weakens because the many standard institutions having problem as well as the many uncollectible receivables by bank to the client.

Area autonomy with inventors Number 22 the year 1999 about local government and inventors number 25 the year 1999 Standard Counter Balance between central government and area has gives big opportunity to area to optimal of management of the potency in area. This situation it is of course directly influences all life aspects in area having earnings of area original is big. Therefore, through this area autonomy the role of regional leader in optimal all area potencies will make the investors to feel interesting economics gimmick to of Indonesia hit by financial crisis. Local development bank (BPD) as area standard owner, which has been arranged in inviting No.13 the year 1962 about grounds local development bank rule, job activity as economics expansion of area and development crust of area chartered investment counsel to increase life level of public and provides development fund defrayal in area, musters fund and executes and saves area cash (owner / saves area cash) beside implements banking business activity.

With existence of legal capital from third party especially government legal capital, what placed at BPD to become load at the same time earnings. Becomes load caused by bank is obliged to pays to interest placed in the form of local government gyro (Pemda). Third party fund becomes earnings for BPD, if placed in the form of between asset banks and also credit insuranceansi to debtor. If difference between loads and earnings yielded is bigger than productions, hence gain which will be obtained, and so on the contrary.

Area autonomy law managing about counter balance finance of area will bring impact to increase of third party fund in banking industry in Indonesia. This thing is visible at increase of fund the year 2000 up to the year 2003 by national banking. Number of funds in the year 2000 amounts to 859.3 trillion idr to increase in the year 2001 becoming 929.3 trillion idr. In the year 2002 increasing to become 934.9 trillion idr, the year 2003 becoming from 9754 trillion idr, the year 2004 becoming 1076.5 trillion idr and the year 2005 becoming 1252.2 trillion idr.

Therefore, from capital distribution side and banking leg asset nationally experiences improvement significant, visible with increase of total average of as a whole capital distribution of national banking. In the year 2001 national banking capital distributions experiences improvement 95.2 trillion idr, for the purpose the year 2002 experiencing improvement 29.3 trillion idr, for the year 2003 experiencing improvement that is big enough that is 101.6 trillion idr, the year 2004



happened improvement 124,1 trillion from year before all and the year the 2005 improvement 121 trillion from in the year 2004. As complete his is visible at Table 1.

Tables 1
Shelf Distribution of National Banking Fund
(In trillion Idr)

Kegiatan	Des 2000	Des 2001	Des 2002	Des 2003	Des 2004	Des 2005
Pendistribusian Dana	539.3	634.5	663.8	765.4	889.5	1,010.5
1. SBI	58.7	74.3	76.9	101.4	94.1	54.3
2. Surat Berharga	24	49.2	46.9	68.7	90.8	60.8
3. Antar Bank Aktiva	129.8	149.4	124.6	112.2	103.5	159.1
4. Penyertaan Modal	6.4	3	5.1	5.9	6.2	6.1
5. Kredit	320.4	358.7	410.3	477.2	595.1	730.2
a. Dalam Idr	178	228.6	296.9	362.6	459.1	584.4
b. Dalam Valas	142.4	130.1	113.4	114.6	135.9	145.8

Source : Processing data (www.bi.go.id)

One of factor having an effect on to economics a state is macro economics factor. According to Syahrir (1995) that situation of macro economics becoming material in analyzing healthy of factor external in stock market and banking. From this side factors applied is inflation rate, level of unemployment, level of economic growth and direct interconnected conversion value with situation of overseas balance of payment.

Hereinafter Eduardus Tandelilin (2001) tells that: "chartered investment counsel analysis need to be done by trend existence of strong relationship between what is going on at macro economics areas and performance a stock market and banking. Fluctuation happened in stock market and banking would related to alteration happened at various macroeconomics variables."

According to circular letter of Indonesia Bank No6/23/DPNP date of 31 Mays 2004 about appraisal system of common banking health measurement include; covers appraisal to usual factors called as CAMELS consisted of: 1) Capital, 2) Asset quality, 3) Management, 4) Earnings, 5) Liquidity, and 6) Sensitivity to market risk. One of primary factor applied internationally to measure condition a bank, especially ability of bank covers risk faced, be level of legal capital sufficiency ratio (CAR). In July 1988 BUSES Committee on Banking Supervision (Committee) releases rule about standard calculation CAR so-called Basle Capital Accord (BCA) and has been agreed on by advance nations to be used fully starts is year-end 1992.

Then in January 1996, Committee has released also Amendments to BCA 1988 to assess element market risk in calculation CAR. This Amendments agreed on also to put into use is full by the end of the year 1997 by Internationally Active

Banks. Along that also, BI (Bank Indonesia) has planned also approach enhancer of banking supervision as according to Basle Core Principles by entering element market risk in it. Referring to the calculation in assessing CAR, Mc New (1997) arises that financial risk faced by modern banking now is consisted of to credit risk, market risk, liquidity risk, operational risk, regulatory risk, and human factor risk. With such was the case, inferential that in measuring financial productivity of banks some influencing factories, both internal factor and also externals factor. This study analyses financial performance at Local Development Bank (BPD) in Indonesia and it's (the relationship with the factors).

Based on background explained, hence this research will study macro variable influence of chartered investment counsel, capital, and liquidity to financial performance at BPD in Indonesia. Relation between visible research variable at Figure 1.

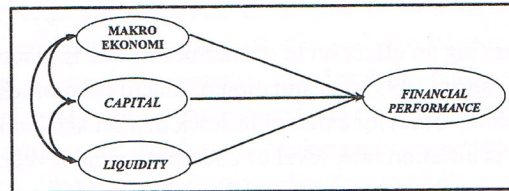


Figure 1
Idea Outline

Research Problem Formula

From breakdown of research background, can be formulated this research problem that is "is there is macro influence chartered investment counsel, capital, and liquidity to financial performance local development bank (BPD) in Indonesia before and after area autonomy".

Purpose of Research

As according to research problem formula, hence purpose of this research is to know is there is economic macro variable influence, capital, and liquidity to financial performance at local development bank in Indonesia before and after area autonomy.

Research Framework

Monetary crisis impact happened cursorily visible from financial performance of time line bank before, during and time line after crisis happened. Financial performance can be expressed by financial statements published every year his by bank. Study's done about financial performance problem between economic macro

factors, capital, liquidity with financial performance between it by McNew (1997) what arises that financial risk faced by modern banking now is consisted of to credit risk, market risk, liquidity risk, operational risk, regulatory risk, and human factor risk.

Then Setyaningsih (1996) finds that company's finance performance after go public experiences improvement which finally will increase company value. With reference to liquidity where finding from Kim at al (1998) express that optimal investment at liquidity will increase defrayal external, variance cash flow and return from investment opportunities but reducing difference of return between leg assets physical of company and leg asset liquid.

Hereinafter research about capital structure with finance performance done by Simerly & Li (2000) result of research they find that there is strong support to preposition where unconformability between company capital structures and area will reduce company performance. Then research done by Ratnawati (2001) finds that variable having an effect on to company value is capital structures, payment of tax, company size, company growth, single source rate and fluctuation of foreign exchange rate. Research about liquidity ratio and capital structure has been done by Bruinshoofd & Kol (2002). This research done in dutch the year 1986-1997. Result obtained from this research is relation between liquidity ratios with capital structure is significant negativity. This caused by high long-term debt will lessen risk therefore doesn't require big liquidity. Hereinafter Anderson (2002) finds that existence of the relation of which are positive between leverage with liquidity. Result of this indicates that high debt ratio will cause level of high liquidity also and low growth.

Research about financial performance done by Cathoth (2002) result of research of Cathoth is that financial performance influenced by capital structure and Firm size. Capital structure influenced by liquidity ratio in significant. Hereinafter research done by Indahwati (2004) result of the research between it is finding that; (1) variable leverage company influential positive of significant to capital structure policy; (2) variable leverage company influential negativity significant to financial performance.

Robert Halt and Karen Walewski (1994) checks about performance 300 board banks to having good performance according to Federal Deposit Insurance Corporation by using return on investment (ROA) and return on equity (ROE). Result of research they conclude that bank having high performance can obtain return on investment (ROA) and return on equity (ROE) above flattened plane of industry. Then the same research about bank performance also has done by Ayadi et al. (1998) with checking bank performance in developing countries for example in Nigeria, what finds that its light banks performance in Nigeria because of bad management, this thing is in marking with too the many credit risks and liquidity



risk, bad credit quality and its lag ability creates legal capital be based from intern bank.

Other research about bank performance, also done by Richard et al (2002) what checks about relation between level of commercial efficiency and banks performance in time line United States 1984-1998. Result of research of Richard et al this concludes that; (1) there is real relationship between level of efficiencies with non interest income, other non interest expense, purchases funds, earning asset and return on average assets; (2) there is the relation of strong negativity between the low of level of efficiencies at bank having percentage fixed high asset compared to bank having percentage loan which is high; (3) level of non performing loans influencing the low of level of efficiency reached by bank ; (4) return on average asset, the ration non performing loans to gross loans and the relative level of purchases funds influenced by condition of economics; and (5) based on testing of rating CAMEL, banks having rating high CAMEL or banks having performance strong has level of high efficiency compared to weak banks.

Research Method

This research applies approach of literature study and secondary data, approach by using secondary data is in the form of publication financial statements of local development bank of all Indonesia from the year 1996 until year 2005 (during 10 years). Financial statements obtained from Indonesia bank head office and research bureau info bank.

Population and Research Sample

Sample in this research equal to number of the populations ($N = n$) that is 26 local development banks (BPD) in all Indonesia (Indonesia Standard Chartered Investment Counsel Statistic, September 2006). If it is seen from the many the local development bank amounts in Indonesia are multiplied with year research data, hence there is research data sample 260 data samples.

Analytical Method

Analyzer applied to test hypothesis is path analysis (path analysis) and Structural Equation Modeling (SEM). SEM is one of data analytical technique multivariate which is solidarity or pool between path analysis and factor analysis (Hair, et al, 2006). SEM as a means of multivariate analysis only recognizes two scale types that is metric scale (interval/ratio) and scale non-metric. Whereas SEM applied to test this research model, because construct consisted of exogenous variable and endogen. Both types of variable in this research is including unobserved variable that is economic macro, capital, and liquidity (exogenous variable). While at variable endogen, which is including unobserved variable is financial performance.

Solution Result Of Research

Result of Data Analysis

In structural equation modeling there are two model types who formed, that is measurement model and structural model. Measurement model explains proportion variance each variable manifest (indicators) explainable in latent variable. From measurement model will be known which indicators significant in latent variable former as valid indication not of the indicators in measuring latent variables. Besides variable significance test manifest, at measurement model also can be searched value construct reliability showing is a group of manifest variable has degree of high concordance in forming latent variable. Low limit assessed construct reliability is admiring of received is 0.7 (Hair et al, 612) and value limit variance extracted is admiring of received is 0.5 (Hair et al, 2006).

Hypothesis Testing

After elaborated by measurement model and structural model from each latent variables, hereinafter is done influence significance test each latent variable exogenous (independent variable) to latent variable endogenous (dependent variable). All valises required in testing procedure have been formulated at Figure 2-3 and Table 2-3. From result of data processing applies software LISREL is obtained by structural equation between variables before area autonomy as follows:

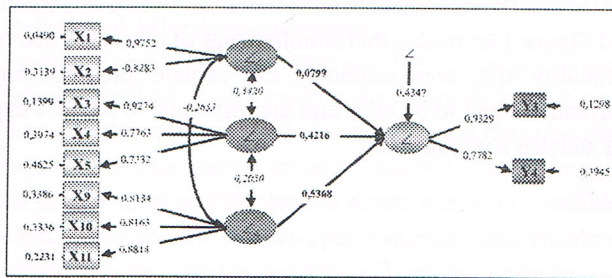
Tables 2.

Variable influence macro (1), capital (2), and liquidity (3) to financial performance (η) at local development bank in Indonesia before area autonomy

Latent Variable	Influence Coefficient	Direct Influence	Indirect Influence	Total
ξ1	0,0799	0,64%	0,01%	0,65%
ξ2	0,4216	17,77%	5,79%	23,56%
ξ3	0,5368	28,82%	3,50%	32,32%
Influence Total Joinly =				56,53%

Figure 2

Structural relationship path diagram between latent variables to financial performance (η) at local development bank in Indonesia before area autonomy.



Based on Tables 2 and Figure 2 knowable that simultaneous economic macro variable, capital, and liquidity before area autonomy can explain alteration happened at financial performance equal to 56.53% and the rest equal to 43.47% explained by other factors of which is not is checked. From result of data processing applies software LISREL is obtained by structural equation between variables after area autonomy in Table 3.

Table 3
 Variable influence macro (1), capital (2), and liquidity (3) to financial performance (η) at local development bank in Indonesia after area autonomy

Latent Variable	Influence Coefficient	Direct Influence	Indirect Influence	Total
ξ_1	0,4656	21,68%	3,75%	25,43%
ξ_2	0,1050	1,10%	2,64%	3,74%
ξ_3	0,0669	0,45%	1,78%	2,23%
Simultaneous Influence =				31,40%

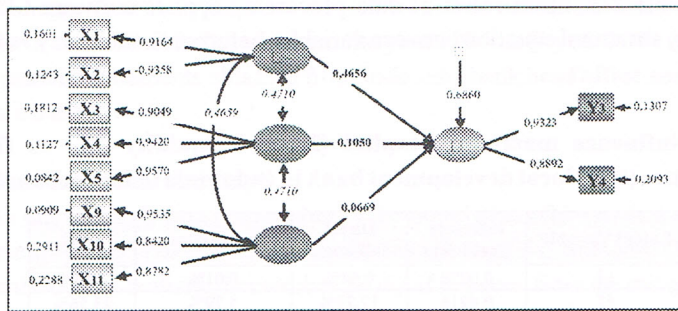


Figure 3
 Structural relationship path diagram between latent variables to financial performance (η) at local development bank in Indonesia after area autonomy. Based on Tables 3 and Figure 3 knowable that simultaneous of economic macro variable, capital, and liquidity after area autonomy can explain alteration happened at financial performance equal to 31.40% and the rest equal to 68.60% explained by other factors of which is not is checked.

Economic Macro Variable Influence to Financial Performance Before and After Area Autonomy.

At visible 2 tables of path coefficient from economic macro variable to financial performance 0.0799 with positive direction. Path coefficient having sign positive shows macro variable value of chartered investment counsel that is more and more height will increase financial performance. Hereinafter value t_{-h} macro variable of chartered investment counsel that is residing in between negativity t_{-k} and positive of t_{-k} indicates that to trust level of 95% there is strong reason to conclude that macro variable of chartered investment counsel doesn't have an effect on significant to financial performance. After visible area autonomy of path coefficient from economic macro variable to financial performance 0.4656 with positive direction. Economic macro influence hypothesis test result to financial performance either before and also after area autonomy shows different result, before economic macro variable autonomy of chartered investment counsel doesn't have an effect on to financial performance,

Result of this research before area autonomy express that chartered investments counsel economic macro doesn't have an effect on to financial performance, result of this leaves for back with research done by Muslumov et al, (2005). Research of Muslumov et al, done in Turkey about economic macro with monetary performance variable at small scale enterprise and middle. Difference result of this research with research done by Muslumov et al, it is about the analysis unit, in research of Muslumov becoming object is bank client (middle small scale enterprise) in this research becoming analysis unit is area development bank which can be categorized is middle company upward. While unit is analyzing it is apply regression, while this research applies SEM.

Economic macro influence after autonomy to finance performance equal to 46.56%. Result of this supports research done by Muslumov et al, (2005). The same result also told by Giovanni (2005) explain that key from at economic macro and financial plays role in investment, so visible profiting direct investment lays in financial performance.

Influence Capital to Financial Performance Area Development Bank in Indonesia Before and After Area Autonomy.

At Visible 3 tables of path coefficient from variable capital before area autonomy to financial performance 0.4216 with positive direction. Path coefficient having sign positive shows variable value capital which more and more height will increase financial performance. Hereinafter value t_{-h} variable capital larger ones from t_{-k} indicates that to trust level of 95% there is strong reason to conclude that variable capital influential significant to financial performance. After visible area autonomy of path coefficient from variable capital to financial performance 0.1050 with

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positive direction. Path coefficient is having sign is positive shows variable value capital which more and more height will increase financial performance. Hereinafter value t_{-h} variable capital which smaller than t_{-k} indicates that to trust level of 95% there is strong reason to conclude that variable capital doesn't have an effect on significant to financial performance.

Influence capital to financial performance before autonomy 0.4216 with positive direction indicates that result of this research in line with research done by Cathoth (2002) result of research of Cathoth is that financial performance influenced by capital structure and firm size. Capital structure influenced by liquidity ratio in significant. Hereinafter research done by Indahwati (2004) result of the research between it is finding that; (1) variable leverage company influential positive of significant to capital structure policy; (2) variable leverage company influential negativity significant to financial performance.

While capital to financial performance after autonomy didn't have an effect on significant to financial performance which total of the influence only equal to 1.05%. With result of this (before autonomy) inferential that capital at area development bank in Indonesia has a real important role in supporting the bank performance, because problem capital in monetary industrial area is including bank is one factor out of five stall factors that need to get serious attention of management of bank. Fifth of the stall factor according to Sinkey (1998) it is: (1) technology; (2) regulation; (3) interest rate risk; (4) costumer; and (5) capital adequacy (using the germen spelling of capital) or shortened by TRICC.

Based on the thing hence role of legal capital for bank of vital importance good as prop (buffer) to accommodate the increasing of hit that is not is expected source from credit risk, interest rate risk, liquidity risk and operational risk and also for the agenda of building public trust, so that bank performance can run carefully as according to management hope and shareholder. Finally, bank capable to execute the role is carefully is followed with risk management effectively and optimum capital structure will have high financial performance (Robert Halt & Karen Walewski, 1994; Culp, 2001; Schroeck, 2002).

Influence Liquidity to Financial Performance Area Development Bank in Indonesia Before and After Area Autonomy.

At Visible 2 tables of path coefficient from variable liquidity to financial performance 0.5368 with positive direction. Path coefficient having sign positive shows variable value liquidity which more and more height will increase financial performance. Hereinafter value t_{-h} variable liquidity larger ones from t_{-k} indicates that to trust level of 95% there is strong reason to conclude that variable liquidity influential significant to financial performance. After area autonomy like in Table visible 2 of path coefficient from variable line liquidity to financial performance

0.0669 with positive direction. Path coefficient is having sign is positive shows variable value liquidity which more and more height will increase financial performance. Hereinafter value t_h variable liquidity which smaller than t_k indicates that to trust level 95%, there is strong reason to conclude that variable liquidity doesn't have an effect on significant to financial performance.

Result testing of hypothesis about influence liquidity to financial performance before area autonomy is gotten result that the influence significant, result of this supported by theory told by Myers (1984) is expressing that law for investment shall given high priority fund coming from internal fund beforehand before taking fund from outside and new share. Internal fund which is in the form of liquid this cheaper assets compared to external fund and also external of equity. More than anything else if existence of asymmetric information as result of retrieval of fund from outside is causing increasingly level of risk premium and finally the fund becomes expensive. Decay of this capital charges expected able to increase financial performance. And so it is with research done by Wang (2002), Wang express that there is relationship significant between liquidity management and operating performance, and this relationship influences structure financial performance.

Result testing of this hypothesis before autonomy at area development bank in Indonesia shows existence of tightly relationship between liquidity to financial performance. Result testing of this hypothesis also finds that there is influence significant liquidity to financial performance with positive direction. Result this research finds that area development bank in Indonesia before area autonomy simply embraces the theory pecking order by doing investment at liquid assets to lessen effect from external funds so that obtainable cheaper source of fund for example from each local government servings with opening local government account at each area development bank, what can increase financial performance.

While influence liquidity to financial performance after area autonomy is gotten result that there are no influences significant, that is 0.0669 with negative direction. Result of this is against told by Myers (1984) above, that law for investment shall given high priority fund coming from internal fund beforehand before taking fund from outside and new share. Internal fund which is in the form of liquid this cheaper assets compared to external fund and also external of equity.

Conclusion

- a). Economic macro variable influence to financial performance either before and also after area autonomy shows different result, before macro variable area autonomy of chartered investment counsel doesn't have an effect on significant to financial performance, while after economic macro variable area autonomy had an effect on significant to financial performance.



- b). Influence capital to financial performance before autonomy 0.4216 with positive direction influential significant. Capital at area development bank in Indonesia has a real important role in supporting the bank performance, because problem capital in monetary industrial area is including bank is one of factor out of five stall factors that need to get serious attention of management of bank. While capital to financial performance after autonomy didn't have an effect on significant to financial performance which total of it's the influence only equal to 1.05%.
- c). Variable liquidity before area autonomy influential significant to financial performance, this thing indicates that before area autonomy existence of tightly relationship between liquidity to financial performance. Result testing of this hypothesis also finds that there is influence significant liquidity to financial performance with positive direction. This thing because of various factors for example is before autonomy, Indonesia in knocking over crisis multidimensional knocking over all aspects, not only chartered investment counsel crisis. Economic crisis pushes the happening of rush, drawdown of third party fund at a timely, finally cleanses banking fund. While after area autonomy doesn't have an effect on in significant variable liquidity to financial performance.

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