

EXAMINING THE CAUSALITY OF CAPITAL TOWARDS LIQUIDITY CREATION BY INVOLVING THE CONTRIBUTION OF EFFECTIVE MANAGERIAL ABILITY

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Abstract	<p>This study has a general purpose to extend a theoretical approach as an attempt to overcome the research inconsistency regarding the influence of capital in banking companies towards the creation of liquidity. In addition, the fact has shown that there was a problem of excess liquidity in Indonesian banks since 1997. To achieve the purpose, the effort is to offer a new concept or proposition derived from the main theory synthesis approach, namely the theory of efficiency and the theory of effectiveness. This study is a causality type observing the sample of conventional commercial banks, which are ranked among the ten banks and have the largest assets in Indonesia as of December 31, 2022. This study succeeded in finding effective managerial ability as a synthesis concept combining both theories. Furthermore, the finding from the research model suggests that effective managerial ability in granting credit is a mediator factor in the relationship between bank capital and the creation of liquidity. This study starts from the existence of various contradictions in the results of empirical research on the causality effect of bank capital on the creation of liquidity. The result shows the significant role of effective managerial ability in explaining the inconclusive findings of previous studies. It confirms that when the effective managerial ability in providing credit is higher, a manager could arrange the capital to create higher liquidity and generate greater revenue. The other results report that the creation of liquidity is influenced positively by the risk of credit and influenced negatively by the volatility of earning and reserve requirements.</p>
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