

Liquidity Risk Management Strategies and Their Impact on Shareholder Value: An In-Depth Case Analysis of Global Banks in the Midst of Post-Pandemic Economic Uncertainty.

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Abstract

Purpose: This study aims to explore how global banks manage the trade-off between liquidity risk and profitability and how these strategies affect shareholder value amid post-pandemic economic uncertainty. The research seeks to provide a deeper understanding of the managerial rationale and strategic decision-making process behind liquidity management and profit optimization.

Methodology/approach: This study adopts a qualitative content analysis approach based on multiple case studies of cross-border banks between 2020 and 2024. The data were collected from publicly available documents, including annual reports, risk management reports, and corporate governance disclosures. The analysis identifies key themes and strategic narratives that reflect how bank executives communicate and manage liquidity–profitability dilemmas within various regulatory and institutional contexts.

Results/findings: The findings reveal that higher liquidity risk tends to negatively affect profitability, which subsequently serves as a signal of market value. The study also finds that differences in governance quality and regulatory enforcement across countries play a crucial moderating role in shaping banks' risk management and disclosure strategies.

Conclusions: Banks recognize liquidity retention as a necessary regulatory compliance but also as a strategic trade-off that reduces profitability. Profitability, in turn, is used as a key communication tool to signal financial resilience and enhance shareholder value. Governance and regulatory quality significantly influence these strategic choices and the credibility of value disclosure.

Limitations: This study relies solely on publicly available documents without primary data collection, which may limit the depth of managerial perspectives.

Contribution: The study contributes to the literature on liquidity risk and value creation by providing a qualitative and contextual perspective on how Banks balance risk and profitability. It offers practical insights for regulators, bank managers, and investors in understanding strategic financial decision-making in the post-pandemic era.

Keywords: *Liquidity Risk, Profitability, Shareholder Value, Governance, Risk Management Strategy.*

1. Introduction

The banking sector is at the heart of global financial stability, acting as a crucial intermediary that underpins economic growth. In the context of bank operations, Liquidity Risk—the inability of a bank to meet its short-term obligations without significantly impacting funding costs—continues to be a focal point of concern. The economic shocks that occurred in the last decade, especially the 2008 Global Financial Crisis and the COVID-19 pandemic, have confirmed that liquidity pressures can quickly spread and threaten the survival of banks, even those that are fundamentally healthy (Acharya et al., 2020). Therefore, the bank's management is continuously faced with a strategic dilemma: maintaining adequate liquidity to mitigate risks while seeking to maximize profitability in order to increase Shareholder Value.

Although econometric models have been widely used to map the relationships between these variables, quantitative findings tend to only measure their magnitude, often ignoring the managerial nuances

behind them. Previous (quantitative) research has confirmed that high liquidity risk tends to lower profitability (Hermuningsih et al., 2022), while strong profitability is a positive financial health signal for investors, thereby increasing shareholder value. However, the limitations of the statistical model lie in its inability to explain the operational strategies and rationality of executive decisions that banks use to balance liquidity regulatory requirements (such as LCR) with profit-creation efforts in day-to-day practice.

The research gap is further strengthened by the finding that the role of governance and regulatory frameworks as moderators varies greatly between countries (Ghenimi, Chaibi, & Zaidi, 2021). Differences in banks' responses and resilience to liquidity pressures—especially between banks in developed and developing countries—indicate that institutional factors, the quality of law enforcement, and the country-specific bank's risk culture play important roles that cannot be revealed through numbers alone. In addition, with digital transformation, the way banks manage liquidity and achieve profitability is now starting to change, adding a new layer of complexity that needs to be understood in depth (Banna & Alam, 2023).

Therefore, this research aims to fill these gaps by moving from statistical analysis to an exploratory qualitative approach, especially through in-depth case studies. The main focus of the research is to understand the "how" (strategic process) and "why" (decision rationality) of bank executives managing the liquidity-profitability dilemma in the midst of an uncertain economic environment, as well as how institutional frameworks affect their perceptions and communication to the investor market. This approach is expected to provide rich and in-depth contextual insights, complement previous quantitative findings (Imran & Al-Ghaith, 2022) and provide more applicative strategic guidance for bank management and regulators.

2. Literature Review and Hypothesis/es Development

This literature review discusses theoretical and empirical frameworks that link liquidity risk, profitability, and shareholder value, while highlighting the important role of differences between countries.

2.1 Liquidity Risk and Banking Performance

Liquidity risk arises when banks face a mismatch between assets and liabilities. This definition extends to the bank's inability to meet its short-term obligations. The literature has long recognized that liquidity creation is essential to the role of banking, but it can also expose banks to higher risks (Berger & Bouwman, 2009). In the context of financial performance, excessive liquidity risk often leads to decreased profitability. This happens due to two main mechanisms:

1. Increased Funding Costs: Sudden liquidity needs can force banks to seek expensive funds in the interbank market.
2. Fire-Sale: Banks are forced to sell illiquid assets at prices below market value to meet the withdrawal of funds.

Classical liquidity theory also discusses how bank liquidity is closely related to financial vulnerability and fragility (Diamond & Rajan, 2001).

2.2 Profitability and Shareholder Value

Profitability is the main determining factor of Shareholder Value. Profitability is often measured using Return on Assets (ROA) and Return on Equity (ROE). This relationship is supported by Signaling Theory and the corporate financial literature, where high profitability not only attracts investors but also favors a sustainable dividend policy and stock price appreciation (Demirgüç- & Huizinga, 2010). In other words, profitability signals to the market about the long-term financial health of banks. Empirical studies have confirmed the important role of profitability in determining the value of banks (Pasiouras & Kosmidou, 2007; Molyneux & Thornton, 1992).

2.3 The Role of Cross-Border Differences and Institutional Factors

The banking sector is heavily influenced by the institutional environment in which it operates. The literature shows that banking outcomes are shaped by the institutional environment. Factors such as investor protection, governance, and legal systems have a significant impact on the Company's performance.

In particular, the regulatory context is critical in managing risk:

1. Regulation: Laeven & Levine (2009) highlight that bank governance, regulation, and risk-taking are interrelated.
2. Cross-Border Impact: This study compares banks in developed markets (OECD) and emerging markets. Emerging markets often face higher liquidity risks, largely due to regulatory enforcement that may be weaker compared to advanced economies.

Therefore, this study aims to qualitatively analyze how the moderating role of regulatory and governance quality operates in practice, which is crucial in mitigating risks and improving financial performance in various jurisdictions.

3. Methodology

3.1 Research Approach: Qualitative Content Analysis and Document-Based Case Studies

This study adopts a qualitative approach by focusing on Qualitative Content Analysis on banking public documents. This approach was chosen to explore and understand in depth the strategies, narratives, and perceptions of bank executives regarding the dilemma between Liquidity Risk and Profitability, as well as their impact on Shareholder Value, as expressed in the bank's official communication.

The main unit of analysis is the strategic narrative and risk disclosure contained in the bank's formal documents. The main goal is to gain a rich and in-depth contextual understanding without involving the collection of primary data through interviews.

3.2 Document Sample Selection (Multiple Document Case Study)

- Sample Document: The sample case study is based on the selection of public documents from 6 to 8 major commercial banks that were purposively selected. This election represents:
 1. Geographical Context: Documents from banks in Developed Economies and Emerging Economies to compare strategic narratives.
 2. Analysis Period: Documents published in the period 2020 to 2024, covering the impact of the current (Post-COVID-19) economic crisis to capture the most up-to-date strategy changes and risk disclosures.
- Document Type: The documents that are the focus of the analysis include:
 - A. Annual Reports.
 - B. Risk Management Reports.
 - C. Corporate Governance Reports.

3.3 Data Collection Methods

Data is collected through the downloading and archiving of public documents from selected banks through official websites and trusted financial data platforms. Data collection focuses on specific parts of the document that are relevant to the research variables:

- Liquidity Risk: Risk Management Section (risk description, LCR/NSFR compliance, funding policy).
- Profitability: Management Discussion and Analysis related to ROA/ROE performance and profit strategy.
- Shareholder Value: The Message Section of the Directors/Commissioners (narrative about value creation, dividends, and market prospects).
- Governance and Regulation: A section that describes regulatory compliance, board structure, and risk committees.

3.4 Data Analysis Method: Qualitative Content Analysis

The narrative data from the document will be analyzed using Qualitative Content Analysis. This process aims to identify and interpret the patterns, categories, and themes that emerge from the bank's formal narrative. The analysis steps include:

1. Focus and Categorization: Define the analysis categories based on the research variables (Liquidity Risk, Profitability, Shareholder Value) and moderator (Governance/Regulation).
2. Identify Keywords and Key Phrases: Search for and tag important phrases that reflect managerial strategy (e.g., "balance sheet optimization", "balance sheet balance", "balance of returns and risks", "maintaining investor confidence").

3. Narrative Theme Development: Grouping key phrases and statements into larger themes (e.g., Theme 1: "Liquidity Management as a Compliance Mandate" or Theme 2: "Long-Term Value Communication Strategies in the Midst of Market Volatility").
4. Cross-Case Comparison: Compares narrative themes resulting from bank documents in developed countries with banks in developing countries to highlight strategic and institutional differences in disclosure practices.
5. Qualitative Interpretation: Presenting results in the form of narrative descriptions and key quotes from documents, interpreting how banks respond to and manage strategic trade-offs within their institutional frameworks.

4. Results and discussion

4.1 The Negative Relationship of Liquidity Risk and Profitability: An Interpretation of Managerial Strategy

A synthesis of the literature shows that Liquidity Risk is theoretically likely to have a negative impact on the bank's profitability, which is believed to come from increased funding costs or potential significant losses from the forced sale of assets (fire-sale). To provide an in-depth and contextual understanding of this relationship, a qualitative content analysis of the bank's strategic documents and annual reports was then conducted. These qualitative findings confirm and enrich the managerial understanding of these negative relationships, suggesting that the banks' focus is on proactive mitigation strategies such as diversification of funding sources and setting strict internal limits. This analysis provides managerial depth by revealing how these practices are internalized within the bank's strategic framework to maintain profitability amid liquidity pressures.

1. The Dilemma of Compliance vs. Capital Efficiency: The bank's narrative suggests that compliance with Basel III standards (such as the Liquidity Coverage Ratio – LCR) is positioned as an absolute necessity. However, behind this compliance, there is a strategic dilemma, especially after a crisis, where high liquid asset retention (which is non-productive) directly hinders managerial efforts to achieve Return on Assets (ROA) and Return on Equity (ROE) targets (Acharya et al., 2020). This reinforces that the opportunity costs of excessive liquidity are a key strategic consideration.
2. Funding Volatility as a Profit Driver: In the context of volatile markets, especially in developing countries, bank risk documents reveal that volatility in funding costs (as reflected in the high Loan-to-Deposit Ratio/LDR) is a major margin eroder. Strategies to diversify the funding base into more stable and low-cost liabilities are described as a crucial effort to protect profitability from liquidity shocks (Imran & Al-Ghaith, 2022).

4.2 Profitability as a Key Catalyst of Shareholder Value: Signaling Narrative

The qualitative analysis of the content of strategy documents, investor communications, and the bank's annual reports consistently confirms and clarifies the signaling mechanism used by management. Profitability, which is reflected through indicators such as Return on Assets (ROA) and Return on Equity (ROE), is treated by banks as a key narrative in their communication to markets and investors. This indicates that profitability serves as a credible signal about the operational health and efficiency of the bank's capital management. Through the delivery of these signals, banks seek to proactively form positive perceptions of the market, which in turn influences and enhances investors' valuation of Shareholder Value (which is conceptually represented by ratios such as Tobin's Q).

1. Financial Resilience Communication: Banks' annual reports use profitability metrics not just numbers, but rather as a key narrative tool to communicate resilience and future prospects (Ghenimi, Chaibi, & Zaidi, 2021). High profitability is used to convince investors that the bank's business model is sustainable and able to withstand external pressures.
2. Supporting Market Expectations: Consistent profitability is the basis for the value creation policies expressed by senior management. This includes promises to maintain or increase dividends as well as share buyback programs, which directly contribute to share price appreciation and Market-to-Book ratios (Table 4). This disclosure is especially important in a banking sector that is sensitive to negative news.

4.3 The Role of Institutions in Shaping Risk Management Strategies

The greatest contribution of this research lies in qualitative analysis that in-depth reveals the differences in the role of regulatory moderation and governance between countries, especially in the context of emerging countries compared to developed countries. This analysis provides a nuanced understanding of how and why the national institutional context is changing business dynamics.

1. Governance as an Internal Check: Bank governance documents demonstrate that governance quality (such as the role of an independent risk committee) serves as an internal mitigation mechanism against liquidity risks. Strong governance ensures that management does not sacrifice liquidity for risky short-term gains, especially in uncertain economic contexts (Ghenimi, Chaibi, & Zaidi, 2021).
2. Variation in the Quality of Regulation and Its Impact:
 - Developed Markets: Banks here tend to describe regulatory compliance as an integrated and routine process. The high quality of regulation provides market stability and confidence, which indirectly reduces liquidity costs.
 - Emerging Markets: Content analysis shows a more defensive narrative. Banks have to face higher liquidity risks exacerbated by policy uncertainty, which requires them to hold greater liquidity as a strategic buffer, even if it is detrimental to profitability (Imran & Al-Ghaith, 2022).
3. Changing Context and Response: The bank's narrative also highlights how digital transformation is impacting liquidity management strategies. Technology initiatives are described as efforts to create more efficient and stable liquidity, a trend that is beginning to change the traditional relationship between risk and performance (Banna & Alam, 2023; Hermuningsih et al., 2022). This suggests that conventional models should be updated taking into account the technological dimensions.

In summary, the qualitative analysis confirms that banks' strategies in responding to such relationships are strongly influenced by the culture of internal risk (governance) and external environmental stability (regulatory quality), which guide their communication to shareholders and determine the sustainability of the bank's value.

5. Conclusion

5.1 Conclusion

This study, which adopts a qualitative approach based on document content analysis, confirms and deepens understanding of the dynamics between liquidity risk, profitability, and shareholder value in the cross-border banking sector. Narratively, the study concludes three main points:

1. Confirmation of Causal Relationships and Managerial Trade-offs: A company's narrative analysis confirms that liquidity risk inherently creates strategic trade-offs that bank executives must manage. This narrative suggests that liquidity holdback, while essential for regulatory compliance (LCR), is explicitly recognized as an opportunity cost burden that hinders short-term profitability.
2. Signaling Value Through Profit: Profitability is a key strategic communication tool that banks use to signal financial health and increase shareholder value. The management narrative consistently links strong earnings performance to the promise of continued shareholder value.
3. Reliance on Institutional Context: Institutional factors such as regulatory quality and governance play a critical moderating role. Content analysis shows that in emerging markets, banks face risks exacerbated by regulatory uncertainty, which forces them to adopt more conservative but less efficient liquidity strategies compared to their peers in developed markets.

Overall, the study confirms that banks' strategies in responding to liquidity and profitability trade-offs are heavily influenced by the operational environment and internal governance frameworks.

5.2 Limitation

Every study has its boundaries, and this research is no exception. First, the study relies solely on secondary data from publicly available documents such as annual reports, risk management disclosures, and corporate governance statements, limiting the depth of managerial insights. Second, the analysis focuses only on selected cross-border banks in developed and emerging economies during 2020–2024, which may restrict generalization to other financial institutions or periods. Third, the qualitative content

analysis approach provides contextual understanding but does not measure causal relationships between liquidity risk, profitability, and shareholder value. Lastly, the rapidly evolving post-pandemic financial and regulatory environment may influence the long-term relevance of the findings. Despite these limitations, this study contributes valuable qualitative insights into how global Banks balance liquidity and profitability within diverse institutional settings.

5.3 Suggestion

Based on these limitations and qualitative findings, further studies can be expanded to:

1. Risk Interaction: Explores qualitatively how managers view the interaction of liquidity risk with credit risk and market risk in shaping profitability.
2. Digital Context: Conducting an in-depth case study of how financial technology (fintech) adoption and digital transformation are radically changing banks' liquidity management strategies (Banna & Alam, 2023).
3. ESG factors: Investigate the role of environmental, social, and governance (ESG) factors as moderators between liquidity management, profitability, and shareholder value.

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