ABSTRACT

This research aims to examine the influence of credit risk, liquidity risk, and operational risk on financial distress, as well as the moderating effect of innovation ability on the relationship between these variables. The population of this research is commercial banking companies listed on the Indonesia Stock Exchange for the period 2017–2022. This research sample was obtained through the purposive sampling method. There were 272 observations processed in this research. The data analysis technique used is PLS-SEM using WarpPLS version 8.0 software. This research shows that credit risk as measured by non-performing loans has a significant positive effect on financial distress, liquidity risk as measured by the loan-to-deposit ratio has no effect on financial distress, and operational risk as measured by the basic indicator approach has a significant positive effect on financial distress. Furthermore, innovation ability weakens the influence of credit risk and operational risk on financial distress. However, innovation ability is not able to moderate the influence of liquidity risk on financial distress. Theoretically, this research provides novelty through variable innovation ability. Practically, the results of this research are useful for bank managers to increase their innovation ability in reducing risks in banking, which can cause banks to experience financial distress.

Keywords: innovation ability, credit risk, liquidity risk, operational risk, financial distress, innovation efficiency