



## Analysis of The Effect Of Exchange Rate, Leverage, And Liquidity On Financial Performance With Firm Age As A Control Variable

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### ABSTRACT

**Purpose:** This study aims to analyze the influence of exchange rate, leverage, and liquidity on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2023, with firm age as a control variable.

**Methodology:** Using a quantitative approach, the sample was selected through purposive sampling, resulting in 113 manufacturing firms. The variables observed include return on assets (ROA), debt ratio (DR), current ratio (CR), exchange rate, and firm age. Data were analyzed using panel regression with a fixed effect model based on the Hausman test. **Results:** The results indicate that leverage has a significant negative effect on financial performance, while liquidity and exchange rate have no significant effect. Firm age as a control variable does not significantly affect ROA.

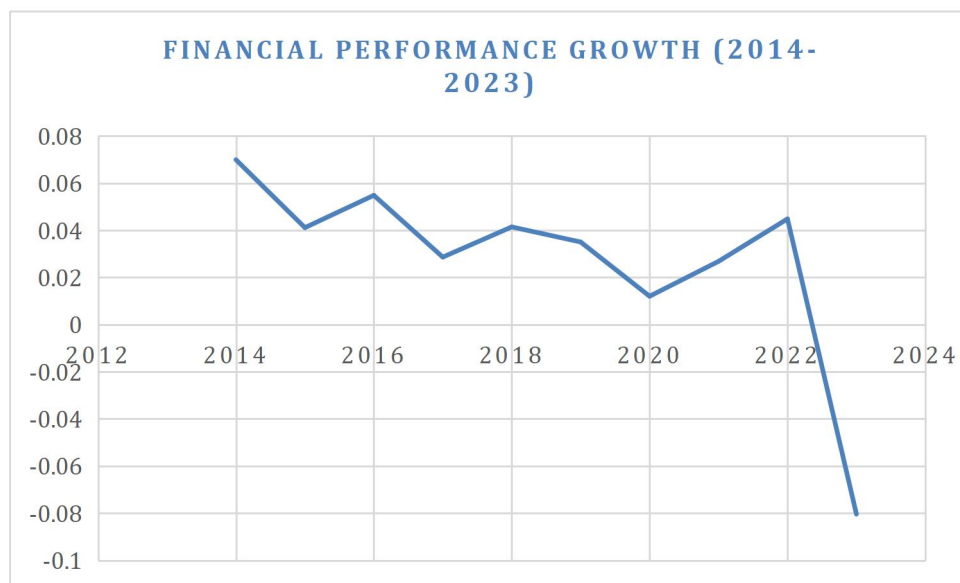
**Findings:** The study highlights the importance of managing debt levels to maintain profitability and supports previous literature on capital structure theory. **Novelty:** This research incorporates firm age as a control variable and uses a decade-long data panel from Indonesian manufacturing companies. **Originality:** This study contributes a comprehensive view of macro and micro financial determinants of firm performance in a developing economy context. **Conclusion:** Companies must manage leverage carefully to avoid profitability decline. High liquidity or long firm age does not guarantee better performance. **Type of Paper:** Research article

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## INTRODUCTION

Financial performance is the main indicator used to measure the success of a company in achieving its main goal, namely providing added value for shareholders and other stakeholders. One measure of financial performance that is often used is Return on Assets (ROA), which reflects the effectiveness of the company in utilizing its assets to generate profits. The higher the ROA, the more effective the company is in utilizing its assets to generate profits. Therefore, ROA is the main focus for management and investors in assessing a company's operational efficiency (Wahyudi, 2024). Financial performance is a description of a company's financial condition in a given period, both in terms of fund collection and use, which is measured through financial indicators such as profitability, liquidity, solvency, and operational efficiency. Financial performance also reflects the extent to which the company has succeeded in achieving its strategic objectives in creating added value and maintaining business continuity.

**Figure 1. Financial Performance Growth**

Financial performance growth is an increase in a company's ability to generate profits, manage assets, and meet its financial obligations on an ongoing basis over a certain period. Financial performance growth shows the extent to which a company's operations are effective and efficient in utilizing its resources to create added value and profits (Chrisna et al., 2019). Meanwhile, according to (Fajria et al., 2021) Defining financial performance growth as the process of increasing a company's capacity to generate profitability as reflected in financial ratios such as ROA, ROE, and profit margin. the growth of corporate financial performance in Indonesia reflects the ability of industrial sectors, including manufacturing, to maintain profitability amid economic challenges. Major events such as the COVID-19 pandemic in 2020 affected the financial condition of many companies, putting pressure on ROA due to declining demand and supply chain disruptions. This situation emphasizes the importance of financial strategies and risk management to maintain financial performance during periods of uncertainty. Stable and positive financial performance not only creates confidence for investors and creditors, but also drives business growth, strengthens competitiveness, and influences companies' investment and expansion decisions. However, exchange rate fluctuations and other macroeconomic conditions can increase financial risk, especially for companies with high international trade exposure.

Various internal and external factors can affect a company's financial performance. External factors such as macroeconomic indicators, including exchange rates, play an important role in determining profitability. In agency theory, exchange rate fluctuations can cause uncertainty in corporate financial management. If management fails to manage risk properly, it can lead to conflicts of interest with shareholders who expect financial stability. High leverage can be a disciplinary tool for companies because it increases the pressure to generate profits to meet debt obligations. However, excessive leverage can also pose risks where management makes high-risk decisions to achieve short-term gains without considering the long-term consequences. A high level of liquidity provides flexibility for companies in managing their business operations, reducing dependence on external financing. However, if a company has too much idle cash, this can cause agency costs because management is not using assets efficiently to increase profitability.

One indicator that is often used to measure this performance is Return on Assets (ROA), which is a ratio that describes a company's ability to generate net income from total assets used (Anindita & Noegroho, 2021). A high ROA indicates that the company is able to utilize its assets productively, while a low or negative ROA indicates ineffective asset management in generating profits (Sukmawati et al., 2022). One of the external factors that influence financial performance is the exchange rate. Exchange rates are macroeconomic indicators that describe the value of one currency against another (Alhamid & Wahyudi, 2023).

In general, exchange rates are the value of a country's currency against the value of another country's currency or economic zone. Exchange rates also involve assets valued in foreign currencies (Moyo & Tursoy, 2020). Theoretically, the relationship between exchange rates and financial performance is negative. An increase in the exchange rate (depreciation of the rupiah) has the potential to increase costs and reduce company profits, especially for companies that have foreign debt exposure (Aminin, 2024). Therefore, this study formulates the hypothesis that the exchange rate has a negative effect on financial performance (Fatoni & Utami, 2019).

In addition to external factors, leverage as an internal factor also affects financial performance. Leverage describes the extent to which a company uses debt in its capital structure (Markonah et al., 2020). A high leverage ratio indicates that the company has large debt obligations, which must be paid with its operating income. In the context of agency theory, high leverage can serve as a disciplinary tool for management, but it also has the potential to encourage high-risk decision-making in pursuit of short-term profits (Irma, 2019). The impact of leverage on company performance also needs to be considered in order to analyze the overall financial health of the organization and guide appropriate decision-making regarding the hierarchy of funding sources (Dsouza et al., 2023). Therefore, leverage is thought to have a negative impact on a company's financial performance. Leverage can be created through options, margins, and other financial products (Tirtanata & Yanti, 2021).

Liquidity, as measured by the current ratio, indicates a company's ability to meet its short-term obligations using current assets such as cash, accounts receivable, and inventory (Anindita & Noegroho, 2021). High liquidity provides flexibility in operations, reduces dependence on external financing, and increases investor confidence (Astutik & Anggraeny, 2020). However, an excessively high liquidity ratio can also incur agency costs because it indicates the existence of assets that are not being used productively (Jessica & Triyani, 2022). Therefore, excessive liquidity can have a negative impact on profitability, and in this study, it is assumed that liquidity has a negative effect on financial performance. Liquidity ratios indicate an entity's ability to meet its short-term obligations. However, weak ratio values may indicate that the organization faces some challenges in meeting its short-term debts (Daryanto et al., 2018).

Finally, company age was used as a control variable in this study. Company age refers to the length of time a company has been established and operating, which is assumed to reflect experience, management expertise, and the ability to survive and adapt to market dynamics (Cahyana & Suhendah, 2020). Established companies gradually increase their productivity, profits, and equity ratios while reducing their debt ratios. Their findings show that older companies can more effectively convert sales growth into productivity and profit growth (Mallinguh et al., 2020). However, some studies show that older companies do not always guarantee better profits, as companies can become less innovative or efficient over time (Sutrisno & Riduwan, 2022). Although not formulated as a hypothesis in this study, company age is still considered a variable that can affect financial performance.

Previous studies have shown varying results regarding the effect of these factors on financial performance. According to a study (Rifah, 2018), exchange rates have a positive effect on ROA. Meanwhile, (Fatoni & Utami, 2019) states that exchange rates have a negative effect on ROA. Research (Firmansyah & Riduwan, 2021) shows that leverage and liquidity affect ROA, but according to (Khakim, 2022) leverage and liquidity do not affect ROA. Research (Cahyana & Suhendah, 2020) shows that company age has a positive effect on ROA, while (Nugroho, 2020) states that company age does not affect financial performance because a long company age does not guarantee an increase in the level of profit generated by the company.

This study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX). The manufacturing sector was chosen because it has relatively more complete, consistent, and annually published financial data compared to other sectors, thus facilitating the long-term data analysis process. In addition, the manufacturing industry also plays a strategic role in the national economy, both as a large employer and as the sector most sought after by investors.

Based on this background, this study was conducted to analyze the effect of exchange rates, leverage, liquidity, and company age as control variables on company financial performance. This study is expected to provide a more comprehensive understanding of the factors that influence financial performance and contribute to managerial decision-making in manufacturing companies.

## METHOD

### Metode Analisis

This study uses a quantitative approach with a focus on manufacturing companies in Indonesia. Based on data from the Indonesia Stock Exchange (IDX), there were 32,192 manufacturing companies listed in 2023. Of these, 132 manufacturing companies were listed on the IDX during the 2014-2023 period. These companies cover various subsectors, namely 14 companies in food and beverages, 7 companies in pharmaceuticals and health, 6 companies in cement and building materials, 7 companies in pens and paper, 7 companies in textiles and garments, 7 companies in automotive and components, 16 companies in chemicals and plastics, 4 companies in cigarettes and tobacco, 3 companies in cosmetics and consumer goods, 11 companies in metals, steel and cable with 11 companies, and other categories covering specific industries such as drinking water, adhesives, and plastic bags with 31 companies. The sample in this study consisted of 113 manufacturing companies selected using purposive sampling, which is a sampling technique based on certain criteria relevant to the research objectives. The criteria for sample selection in this study were that the companies were part of the manufacturing sector that were consistently listed on the IDX during the 2014-2023 period, selected complete annual financial reports that were published consecutively during that period, and provided the data needed in the study, such as financial information.

The exchange rate is measured by the average exchange rate in a certain period against foreign currencies. Leverage is measured by the debt ratio, which describes the proportion of debt to total company assets and reflects the company's financial ratio. Liquidity is measured using the current ratio, which indicates the company's ability to meet its short-term obligations with current assets. In this study, Return on Assets (ROA) is the dependent variable, while the independent variables include exchange rate, leverage, liquidity, and company age as control variables.

$$\text{Exchange Rate} = \frac{\sum_{t=1}^n E_t}{n}$$

ROA is the ratio between net profit after tax to total assets, which is also a measure to assess how much the level of return on assets owned (Junaeni, 2017). The dependent variable is calculated by net income compared to total assets. The higher the ROA, the better the company is in utilizing its assets to make a profit (Ledhem & Mekidiche, 2020). ROA is used to measure the company's financial performance (Firmansyah & Riduwan, 2021). ROA is calculated with the following formula:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

While the independent variable, namely leverage, will be measured using Debt Ratio, namely the ratio between total debt and total assets owned by the company. This ratio reflects how much of the company's assets are funded by debt (Devina & Purnama, 2022). Debt Ratio is used to measure company leverage. Debt Ratio is calculated with the following formula:

$$\text{Debt Ratio (DR)} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Liquidity variables are measured using the Current Ratio, namely total current assets divided by total current debt, a higher Current Ratio value indicates a company's better ability to meet its short-term obligations. Current Ratio is used to measure company liquidity (Badariah & Rofidotul Jannah, 2022). The Current Ratio formula is as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Debt}}$$

While the exchange rate as control variable is measured using the natural logarithm of total assets (Ln Total Assets) to describe the scale of the company's operation (Saputra & Yahya, 2017). In this study, regression analysis is used to determine the effect between exchange rates, leverage, liquidity on financial performance with firm age as a control variable. With the equation model:

$$\text{Equation 1: ROA} = \alpha + \beta_1 \text{ExchangeRate} + \beta_2 \text{DR} + \beta_3 \text{CR} + \varepsilon$$

$$\text{Equation 2: ROA} = \alpha + \beta_1 \text{ExchangeRate} + \beta_2 \text{DR} + \beta_3 \text{CR} + \gamma \text{Firm age} + \varepsilon$$

Description:

$\alpha$  = Constant

$\beta_1, \beta_2, \beta_3, \dots, \beta_6$  = Regression Coefficient

$\varepsilon$  = Error Term

This analysis stage in this study begins with descriptive statistical test to see an overview of the data, such as the maximum, minimum, average, and standard deviation values of each variable. Furthermore, the correlation test between variables is conducted to see the initial relationship, which shows that leverage is negatively correlated to ROA, while current ratio and firm age have a positive correlation but tend to be weak. After that, a panel regression test is conducted using a fixed effect model according to the results of the Hausman test.

The decision-making criteria in this analysis are based on the significance value (p-value). If the p-value  $< 0,05$ , then the variable is considered to have a significant effect on ROA. conversely, if the p-value  $\geq 0,05$ , then the effect is considered insignificant. The direction of influence is determined by the sign of the regression coefficient, positive indicates a unidirectional influence, while negative indicates an opposite influence. The selection of the panel regression model is done through the Hausman test, where the p-value  $< 0,05$  indicates that the fixed effect model is more appropriate.

## RESULTS AND DISCUSSION

### RESULTS

Regarding the data used in this study, descriptive statistical analysis was carried out on all variables studied, namely return on assets (ROA), exchange rate, debt ratio (leverage), current ratio (CR), and firm age. Descriptive statistics present the mean, standard deviation, minimum value, and maximum value of each variable. Details of the descriptive analysis results are shown in table 1 below:

**Table 1 Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Profitability	1130	.039	.114	-.949	.944
Macroeconomics	1130	14112.2	905.835	12440	15731
Leverage	1130	.489	.3	-.02	2.471
Liquidity	1130	2.119	1.594	-1.722	8.638
Firmage	1130	41.084	14.693	1	94

Source: Stata 17 data processed in 2025

Based on descriptive statistical analysis, there were 1,130 observations from 113 manufacturing companies listed on the Indonesia Stock Exchange during the 10-year study period (2014–2023). The average profitability (ROA) was 0.039 or 3.9%, with a minimum value of -0.949 occurring at PT Astra Otoparts Tbk in 2017, and a maximum value of 0.944 at PT Wilmar Cahaya Indonesia Tbk in 2022. This indicates that there are significant differences in financial performance between companies, with some generating high profits while others incur losses.

For the exchange rate variable, the average is 14,112.2, with a minimum value of 12,440 at PT Akasha Wira International Tbk in 2014, and a maximum value of 15,731, which was also experienced by several companies, including PT Akasha Wira International Tbk in 2022. This reflects fluctuating macroeconomic conditions that affect the operational activities of companies that have foreign currency-based transactions.

For the leverage variable (debt ratio), the average company has a debt-to-asset ratio of 0.489, with a minimum value of -0.02 and a maximum value of 2.471. The company closest to the average is PT Yanaprima Hastapersada Tbk in 2017, with a debt ratio of 0.582. This value indicates that there is considerable variation in the capital structure between companies, with most still in the healthy category, but some companies having a high dependence on debt financing.

For the liquidity variable (current ratio), the average company has a value of 2.119, meaning that in general, companies have current assets more than twice their short-term liabilities. The minimum value recorded was -1.722, while the maximum value of 8.638 occurred at PT Indofood CBP Sukses Makmur Tbk in 2014. This indicates that there are companies with very high liquidity levels, which may indicate excess cash reserves, while several other companies are facing difficulties in meeting their short-term liabilities.

As for the company age variable, the average company in the sample has been operating for 41 years. The youngest companies included in the sample are PT Indofood CBP Sukses Makmur Tbk (2019), PT Semen Indonesia (Persero) Tbk (2023), and PT Trisula International Tbk (2014), which are only around 10 years old. Meanwhile, the oldest companies are PT Sepatu Bata Tbk, PT Delta Djakarta Tbk, PT Multi Bintang Indonesia Tbk, and PT Merck Sharp Dohme Pharma Tbk, which have been established for 91 years, demonstrating long-term business continuity in the Indonesian manufacturing sector.

**Tabel 2 Correlation Between Variable**

Variables	(1)	(2)	(3)	(4)	(5)
Profitability	1.000				
Macroeconomics	-0.047	1.000			
Leverage	-0.335	0.009	1.000		
Liquidity	0.257	0.022	-0.552	1.000	
Firmage	0.203	0.171	-0.061	0.137	1.000

Source: Stata 17 data processed in 2025

The correlation test results show that the exchange rate has a very weak negative correlation with ROA (-0.047). Leverage has a stronger negative correlation (-0.335), indicating that the higher the debt ratio, the lower the company's profitability. Conversely, liquidity is positively correlated with ROA (0.257), indicating that more liquid companies tend to be more profitable. Company age also shows a positive correlation (0.203), although the effect is relatively small.

**Tabel 3 Hausman test (Model 1)**

	Coef.
Chi-square test value	.113
P-value	.945

**Tabel 4 Hausman test (Model 2)**

	Coef.
Chi-square test value	13.143
P-value	.004

Source: Stata 17 data processed in 2025

Based on the Hausman test, the first equation has a chi-square value of 0.113 with a p-value of 0.945, which supports the use of random effects, while the second equation has a chi-square value of 13.143 with a p-value of 0.004, which supports the use of fixed effects. In the first equation (random effect), profitability is significantly influenced by macroeconomics (negative), leverage (negative), and liquidity (positive). However, after adding the control variable (firm age) to the second equation with fixed effects, the effect of macroeconomics becomes insignificant, while leverage remains negatively influential, liquidity is positively influential, and firm age actually has a negative effect on profitability.

**Tabel 5 Regression Equation Results (Without Control)**

Profitability	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Macroeconomi cs	0	0	-2.15	.031	0	0	**
Leverage	-.105	.014	-7.29	0	-.133	-.077	***
Liquidity	.007	.002	2.71	.007	.002	.012	***
Constant	.159	.04	3.97	0	.081	.238	***
Mean dependent var		0.039	SD dependent var				0.114
Overall r-squared		0.122	Number of obs				1130
Chi-square		94.769	Prob > chi2				0.000
R-squared within		0.065	R-squared between				0.181

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Source: Stata 17 data processed in 2025

The regression results without control variables (model 1) show that leverage has a significant negative effect on ROA (p-value 0.000). Liquidity has a significant positive effect (p-value 0.007), while exchange rates have no significant effect. The regression results (random effect, without control variables) show that leverage has a significant negative effect on ROA with a coefficient of -0.105 ( $p < 0.01$ ), meaning that every 1% increase in leverage reduces ROA by approximately 10.5%. Liquidity has a significant positive effect with a coefficient of 0.007 ( $p < 0.01$ ), meaning that a 1% increase in liquidity increases ROA by approximately 0.7%. Meanwhile, exchange rates have a negative effect with a very small coefficient of -0.00000588 ( $p < 0.05$ ). Thus, it can be concluded that internal factors such as leverage and liquidity have a more dominant effect on company financial performance than external factors such as exchange rates.

**Tabel 5 Regression Equation Results (With Control)**

Profitability	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Macroeconomi cs	0	0	1.49	.137	0	0	
Leverage	-.105	.016	-6.58	0	-.136	-.073	***
Liquidity	.006	.003	2.46	.014	.001	.012	**
Constant	-.005	.002	-2.88	.004	-.009	-.002	***
Profitability	.169	.04	4.25	0	.091	.247	***
Mean dependent var		0.039	SD dependent var				0.114
R-squared		0.073	Number of obs				1130
F-test		19.808	Prob > F				0.000
Akaike crit. (AIC)		-2536.606	Bayesian crit. (BIC)				-2511.456

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Source: Stata 17 data processed in 2025

The addition of the firm age control variable in the regression equation (Equation 2) shows a slight change in the estimation results, but does not significantly affect the model. In model 2 (fixed effect, with firm age control), the results show that the exchange rate is not significant ( $p = 0.137$ ), leverage remains significantly negative (-0.105;  $p < 0.01$ ), liquidity has a significant positive effect (0.006;  $p < 0.05$ ), and firm age has a significant negative effect (-0.005;  $p < 0.01$ ). Thus, profitability is more influenced by internal factors (leverage, liquidity, company age) than external factors such as

exchange rates. This may occur because older companies often face challenges in the form of higher operating costs or decreased efficiency.

## DISCUSSION

The results of this study indicate that exchange rates, leverage, and liquidity affect the financial performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2014-2023, with company age as a control variable. The findings show that exchange rates do not have a significant effect on profitability (ROA). This means that fluctuations in the rupiah against foreign currencies do not have a direct impact on the financial performance of manufacturing companies. One reason for this is that most manufacturing companies have risk management strategies, such as hedging, or have revenues in foreign currencies, which can offset exchange rate risks.

The test results found in the second hypothesis that the leverage variable measured by the debt ratio also has a significant negative effect on ROA, indicating that the higher the company's debt level, the lower its profitability. Thus, the leverage variable in this study is accepted. This shows that these results are in line with the research (Pradnyaswari & Dana, 2022) which states that high leverage will cause profitability to decline due to the use of debt, which incurs interest expenses and increases company risk. The increase in risk in this context is the possibility of default by the company due to excessive debt to finance assets.

In the results of the third hypothesis testing, liquidity had a significant positive effect on ROA. This means that companies with a higher current ratio tend to be able to maintain smooth operations and meet short-term obligations, thereby having a positive impact on profitability. These findings are in line with the research by (Sudaryo & Pratiwi, 2016) which states that although current assets do not directly increase profits, their availability can maintain cash flow stability, thereby supporting business continuity.

The results of testing the fourth hypothesis, that company age as a control variable also has no significant effect on ROA, are in line with (Nugroho, 2020) who states that company age has no effect on company financial performance because a long company age does not guarantee that the company's profit level will increase. These results indicate that the older the company, the lower its profitability. This contradicts the initial hypothesis, which states that an older company should be able to increase its profitability due to its experience and high stability in business operations.

Thus, the results of this study provide input for companies in managing factors that affect their financial performance. Companies need to be more cautious in managing debt to avoid high financial risks. In addition, companies also need to consider the impact of exchange rates on financial performance, especially if they have large international transactions. Meanwhile, although high liquidity is not a major factor in increasing profitability, companies must still ensure that current assets are managed efficiently to support business continuity.

## CONCLUSION

Based on the results of the study, it can be concluded that the variables that significantly affect financial performance (ROA) in manufacturing companies listed on the IDX for the period 2014–2023 are leverage and liquidity. Leverage has been proven to have a significant negative effect on ROA, which means that the higher the company's debt level, the lower its profitability. This is in line with the capital structure theory that excessive use of debt can increase interest expenses and default risk, thereby suppressing financial performance. Conversely, liquidity has a significant positive effect on ROA, indicating that companies that are able to maintain their current assets to meet short-term obligations are also better able to maintain their profitability. Thus, effective cash and current asset management is one of the important factors in improving financial performance. Meanwhile, the exchange rate variable does not have a significant effect on ROA. This indicates that fluctuations in the rupiah exchange rate against foreign currencies do not necessarily affect profitability, possibly because some companies implement risk management strategies or have foreign currency revenues that can offset the impact. In addition, the age of the company, which is

used as a control variable, also has no significant effect on profitability. This means that the length of time a company has been operating does not guarantee better financial performance, because experience and age are not always accompanied by increased efficiency and innovation.

In practical terms, the results of this study provide important input for company management. Companies need to be more careful in managing their capital structure so as not to be overly dependent on debt, as high leverage has been shown to suppress profitability. On the other hand, current assets must be managed efficiently so that high liquidity can truly support smooth operations and increased profits, rather than simply becoming idle funds. Companies with exposure to international transactions also need to pay attention to exchange rate risk, even though the results of this study show that its influence is insignificant, because exchange rate fluctuations still have the potential to suppress performance under certain conditions. For further research, it is recommended to add other macroeconomic variables, such as inflation or interest rates, and expand the industrial sectors studied to gain a more comprehensive understanding of the factors that affect company profitability in Indonesia.

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