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THE EFFECT OF ASSET TANGIBILITY AND INVESTMENT DECISIONS ON FIRM VALUE WITH PROFITABILITY AS MODERATING VARIABLE

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Abstract

This study aims to examine the effect of asset tangibility and investment decisions on firm value, while also evaluating the moderating role of profitability. The study utilizes secondary data in the form of annual reports of the companies. The population of this study consists of companies in the industrial sector listed in Indonesia Stock Exchange (IDX) for the 2022-2024 period. Sample selection was carried out using a purposive sampling technique, with total 124 companies' data points that satisfied the established selection criteria. The data analysis method used id quantitative utilizing SPSS. The empirical findings reveal that investment decisions have a positive effect on firm value, while asset tangibility is not found to effect firm value, and profitability does not strengthen the effect of asset tangibility and investment decisions on firm value.

Keywords: Asset Tangibility, Firm Value, Investment Decisions, Profitability

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INTRODUCTION

The increasingly intense and rapid competition in the business environment is driven by companies striving to maximize profits while enhancing the welfare of their shareholders (Nofika & Nurhayati, 2022). According to Hapsoro & Adyaksana (2020), firm value reflects invertors' assessed through its stock market performance. Firm value represents an important consideration for investors as well as other users of financial statements. Investors and shareholders generally expect to obtain a reasonable return on their investments in the future. Companies with a consistently increasing firm value tend to attract greater investor interest, as such growth is often associated with expectations of higher future returns (Alathamneh et al., 2025).

Based on data published by the Indonesia Stock Exchanged (IDX), firm value has shown a declining trend over the 2022-2024 period. In the industrial sector, firm value was recorded at 0.98 in 2022, declined to 0.99 in 2023, and later increased to 0.84 in 2024. These data indicate that the industrial sector experienced a decrease in firm value between 2022-2024. Likewise, the market PBV ratio demonstrated a downward movement during the same period, with values of 1.11 in 2022, 2.17 in 2023, and 2.09 in 2024. This patterns further supports the indication of a decline in firm value during the 2022-2024 timeframe.

Asset tangibility is utilized by companies to support their operational activities, particularly in the production of goods and services. The existence of tangible assets enables firms to enhance production capacity, increase sales performance, and improve profitability (Alathamneh et al., 2025). As a result, investors tend to expect companies with higher proportion of tangible assets to generate greater returns for shareholders, which may contribute to an increase in firm value. This argument is consistent with findings of Ramadhan et al. (2022).

Investment decisions made by investors are influenced by several considerations. One of the primary aspects considered is corporate transparency regarding firm performance, as it plays an important role in shaping invertors' perceptions of firm value (Alcaide González et al., 2020; Yu et al., 2021). An upward trend in stocks prices may signal investors' confidence in the company's future value. From a financial standpoint, debt financing constitutes a critical factor, as a high dependence on debt may lead investors to perceive that companies are more focused on fulfilling debt obligation rather than generating returns from investment opportunities. Investor confidence in the investment decisions undertaken by a company may strengthen market trust, thereby contributing to higher stock prices and ultimately enhancing firm value. This argument is supported by the findings of Karyadi et al. (2025) and Munawaroh & Munandar (2024).

Corporate profitability represents one of the key determinants in assessing firm value. A high level of profitability may indicate that a company operates efficiently and can generate returns that meet the expectations of both the firm and its investors. Furthermore, a high level of profitability may encourage investors to expects firms to expand their tangible assets in order to sustain operational performance and maintain profitability, which in turn may contribute to an increase in firm value. Moreover, firms that generate higher profits are often viewed as having promising growth opportunities, causing investors to place greater emphasis on the company's investment decisions when assessing its future prospects. According to Munawaroh & Munandar (2024), strong profitability can increase investor confidence in a company's ability to make sound investment decisions, thereby encouraging investors to allocate their capital to the firm. High

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profitability may also contribute to increased stock prices and attract greater investor interest in making investment decisions, which ultimately supports the enhancement of firm value.

This paper presents the findings of the study examining the effect of asset tangibility and investment decisions on firm value, with profitability serving as a moderating variable. The study focuses on industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. The selection of the industrial sector is based on its distinct characteristics, which provide a different context compared to prior studies.

REVIEW OF LITERATURE

Signaling Theory was originally developed by Spence (1973), who defined it as a process through which valuable information held by one party is conveyed to another party in the form of signals. Corporate managers communicate relevant information to shareholders through various signals aimed at minimizing information gaps. These signals can strengthen investors' perceptions of the company's prospects, encourage investment decisions, and consequently enhance firm value.

Agency Theory, introduced by Jensen & Meckling (1976) explains that an agency relationship arises when one party delegates authority to another party to make decisions on behalf of the organization. Agency conflicts may emerge due to the opportunistic behavior of the management, which tend to prioritize short-term organizational interests without adequately considering long-term objectives. This theory emphasizes the relationship between principals and agents, in which investment decisions and asset management may create potential conflicts of interest. Profitability can be viewed as a reflection of management's capability to utilize corporate resources efficiently.

The Effect of Asset Tangibility on Firm Value

Signaling theory suggests that tangible assets function as indicator of a firm's operational strength and long-term prospects. Such information may reduce uncertainty among investors, encourage investment decisions, and contribute to higher firm value. From the perspective of agency theory, effective asset management may reduce agency conflicts between principals and management as well as align managerial actions with shareholders' interests. A higher proportion of tangible assets may contribute to greater production capacity and improved profitability. Companies with substantial tangible asset ownership are often perceived as having made significant capital investments. Such conditions may also provide positive signals to investors, indicating that the company demonstrates strong financial conditions. From the perspective of creditors, firms with a higher level of tangible asset ownership may have greater access to external financing (Alathamneh et al., 2025). Furthermore, corporate investment in tangible assets may support increased production and profitability, as evidenced in the findings of Dwaikat et al. (2023).

H1: Asset tangibility has a positive effect on firm value.

The Effect of Investment Decisions on Firm Value

Agency theory posits that managerial investment choices may act as a mechanism through which shareholders can evaluate whether management is acting in accordance with owners' expectation and objectives. When managerial actions are aligned with shareholder interests, thereby contributing to the enhancement of firm value. Investment decisions represent a crucial aspect of corporate management because they are closely associated with the achievement of organizational objectives through investment activities, as well as with the company's determination of asset

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composition (Tan & Luo, 2021). Signaling theory suggests that corporate investment initiatives may serve as indicators of anticipated future growth and profitability. Consequently, investors may respond positively to these signals, which can enhance market confidence and drive stock prices upward (Melina & Endri, 2025). This argument is supported by the findings of Suteja et al. (2023) and Melina & Endri (2025).

H2: Investment decisions have a positive effect on firm value.

Profitability Moderates the Effect of Asset Tangibility on Firm Value

Based on signaling theory, high profitability may serve as a positive signal to investors and the market, indicating that companies can maintain or even improve their financial performance, one of which may be achieved through increased production capacity supported by tangible assets. From the perspective of agency theory, high profitability may indicate management's success in fulfilling shareholders' interests and demonstrate effective asset management, thereby reducing the likelihood of agency conflicts between management and shareholders. A greater level of tangible asset ownership may increase production capacity, which in turn may contribute to higher sales volume (Alathamneh et al., 2025). Firms with strong profitability tend to have greater financial flexibility to expand their tangible asset base.

H3: Profitability strengthen the effect of asset tangibility on firm value.

Profitability Moderates the Effect of Investment Decisions on Firm Value

Signaling theory posits that profitability function as a mechanism through which management communicates that firm's financial capability and operational effectiveness, allowing investors to perceive the company as financially sound and well-performing. High profitability may therefore strengthen investor confidence in the firm's investment strategies and future growth prospects. From the perspective of agency theory, profitability may act as an indicator of managerial effectiveness, suggesting that management successfully fulfilled shareholders' interests. Strong profitability performance may motivate managers to optimize corporate performance, including through sound investment decision-making. Companies with high profitability tend to place greater emphasis on investment decisions as a means of expanding capital and supporting future growth (Melina & Endri, 2025). A higher level of profitability provides companies with increased financial capability to fund investment initiatives and allocate resources efficiently in persuit of shareholders' interests.

H4: Profitability strengthen the effect of investment decisions on firm value

RESEARCH METHOD

This research adopts a quantitative methodology to investigate the relationship among the variables and to evaluate the proposed hypotheses involving the independent, dependent, and moderating variables. The analysis is based on secondary data obtained from publicly accessible annual reports. The sample includes industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period and utilizes a combination of cross-sectional and time series data, enabling the observation to examine multiple firms over a specified period. The sample selection process applies a purposive sampling method, whereby firms are chosen according to specific criteria. Eligible companies are those that consistently publish annual reports and have relevant and sufficient data required for the purposes of this study. The variable of this study consists of firm value measured by Tobin's Q, asset tangibility is calculated as the ratio of total fixed

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asset to total asset, investment decisions are proxied by the Investment Opportunity Set, and profitability is proxied by the Return on Equity.

This study employs a Moderated Regression Analysis (MRA) model. Several statistical analyses are conducted in this research, including descriptive statistical analysis, classical assumption test, and hypothesis testing.

$Y = \alpha + \beta 1TANG + \beta 2IOS + \beta 3TANG*ROE + \beta 4IOS*ROE + e$

Notes:

Y = Firm Value
α = Constant
β = Coefficient
TANG = Asset Tangibility
IOS = Investment Decisions
ROE = Profitability
e = Error

RESULTS AND DISCUSSION

Table 1
Descriptive Statistical Analysis

	N	Min	Max	Mean	Std Deviation
Tobin's Q	124	0.3360	2.8299	1.026768	0.4909013
TANG	124	0.0278	0.9520	0.348849	0.2159914
IOS	124	0.3864	9.3973	2.042090	1.4908464
ROE	124	-0.3046	0.3551	0.056219	0.1165371
Valid N (listwise)	124				

Source: SPSS 26

The dataset analyzed in this study consists of 124 observations collected from the 2022-2024 period. Descriptive statistics indicated that firm value (Tobin's Q) ranges from 0.3360 to 2.8299. For the asset tangibility (TANG), the observed values vary between 0.0278 and 0.0520. The investment decisions (IOS), ranges from 0.3864 to 9.3973. Meanwhile, profitability (ROE) ranges from -0.3046 to 0.3551.

Table 2
Normality Test

Information	N	Sig.	Explanation
1-Sample KS Test	124	0.200	Data are normally distributed

Source: SPSS 26

The initial dataset consisted of 153 observations. However, because the data did not satisfy the normality assumption, an outlier detection procedure was performed using the casewise diagnostic method. Following the removal of outlier, the final sample size was reduced to 124 observations. Despite the elimination of outlier, the data still failed to meet the normality requirement. Therefore, a data transformation was conducted using the Natural Logarithm (LN) approach. In this study, the transformation was applied only to the firm value, while the independent variables were not transformed because some of them contained negative values, making logarithmic transformation inappropriate. After applying the natural logarithm

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transformation to the Tobin's Q variable, the normality test result indicate that the data were normally distributed.

Table 3
Multicollinearity Test

Variables	VIF	Explanation
Asset Tangibility (TANG)	1.045	No Multicollinearity Issue
Investment Decisions (IOS)	1.865	No Multicollinearity Issue
TANG*ROE	2.589	No Multicollinearity Issue
IOS*ROE	3.834	No Multicollinearity Issue

Source: SPSS 26

The VIF values are below the threshold of 10. This result indicates that no multicollinearity issue is detected among the variables.

Table 4
Autocorrelation Test

N	K	DW	Explanation
124	4	1.440	Autocorrelation Free

Source: SPSS 26

The Durbin-Watson value obtained in this study is 1.440. Since this value falls within the acceptable range, the regression analysis satisfies the autocorrelation assumption.

Table 5
Heteroscedasticity Test

Variables	Sig.	Explanation
Asset Tangibility (TANG)	0.253	Heteroscedasticity free
Investment Decisions (IOS)	0.737	Heteroscedasticity free
TANG*ROE	0.968	Heteroscedasticity free
IOS*ROE	0.878	Heteroscedasticity free

Source: SPSS 26

Referring to Table 5 above, the regression model is satisfies the heteroscedasticity assumption.

Table 6
Hypothesis Test

Variables	Direction Prediction	regression coefficient (B)	Sig. (One Tailed)	Explanation
Constant		-0.521	0.000	
TANG	+	0.067	0.309	H1 Rejected
IOS	+	0.203	0.000	H2 Accepted
TANG*ROE	+	-1.030	0.103	H3 Rejected
IOS*ROE	+	0.147	0.134	H4 Rejected
Adj. R^2		0.516		
F Test (sig)		0.000		

Source: SPSS 26

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From the standpoint of signaling theory, the proportion of tangible assets owned by a company can provide investors with information regarding the firm's stability and future growth potential. A greater level of asset tangibility may be perceived as an indication of the company's ability to support and sustain its operational activities. In addition, agency theory suggests that effective management of tangible assets can help align managerial actions with shareholders' intersts and minimize agency-related conflicts. Nevertheless, the empirical evidence obtained in this study does not support these theoretical expectations. The findings indicate that asset tangibility has no effect on firm value. This finding is in line with previous study conducted by Shofa et al. (2025). This finding indicates that a high level of asset tangibility within a company does not necessarily reflects greater corporate productivity.

Based on signaling theory, investment decisions may serve as a signal to shareholders that the company possesses favorable future prospects through its investment plans and strategic initiatives. In addition, according to agency theory, investment decisions reflect management's effort to act in the best interests of shareholders by pursuing corporate objectives through appropriate investment strategies. The results indicate that investment decisions have a positive effect on firm value. This finding is in line with previous studies conducted by Hidayah et al. (2025) dan Wijaya (2024). Investment decisions may provide a favorable signal to shareholders, as they indicate that the company possesses promising future prospects supported by effective investment strategies. Shareholders tend to perceive that the company is capable of allocating its capital efficiently in ways that enhance corporate productivity and improve firm value.

From signaling theory perspective, strong profitability can be interpreted as an indication of a company's sound financial health and its ability to sustain favorable performance over time. Such information may enhance shareholders' confidence in the firm's future prospects. To preserve profitability, companies often seek to maintain or improve their productive capacity, one of which can be achieved through the effective utilization of tangible assets. In addition, agency theory suggests that firms with higher profitability provide managers with greater incentives to manage corporate resources efficiently, including tangible assets, in order to maintain financial performance and meet shareholders' expectations. Despite these theoretical considerations, the empirical results of this study do not support the proposed relationship. The finding reveal that profitability does not strengthen the effect between asset tangibility and firm value. This result is consistent with study conducted by Utami & Widati (2022) which stated that profitability is not a significant determinant of firm value and is also supported by the finding of Chang & Sufiyati (2024) which concluded that asset tangibility does not significantly influence profitability.

Based on signaling theory, productive investment decisions with promising return prospects may serve as a positive signal to shareholders, particularly when supported by a high level of profitability. Furthermore, according to agency theory, high profitability provides managers with greater flexibility to undertake productive investment decisions that offer favorable returns prospects, thereby strengthening investor trust and enhancing firm value. Despite these theoretical considerations, the empirical results of this study do not support the proposed relationship. The findings reveal that profitability does not strengthen the effect between investment decisions and firm value. This result is consistent with the study conducted by Apriadi et al. (2025) which reported that investment decisions do not significantly influence firm value value and also align with the

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research of Utami & Widati (2022) which stated that profitability is not a significant determinant of firm value.

CONCLUSION

Based on the empirical analysis and hypothesis testing result, several conclusions can be drawn. The findings indicate that asset tangibility does not have an effect on firm value, investment decisions have a positive effect on firm value, profitability does not strengthen the effect of asset tangibility and investment decisions on firm value.

This study is subject a limitation. The research utilizes secondary data derived from annual reports during the 2022-2024 period, in which not all companies disclosed the required information. Based on the conclusions and limitations described above, futures studies are recommended to employ alternative measurements for the variables used in this research. In addition, subsequent research may expand the scope by examining companies from different sectors in order to obtain broader and more comprehensive findings.

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