

Decoding the Strategic Role of Internal Control Quality in Market Valuation: Evidence from Real Estate Firms Listed on the Stock Exchange of Thailand

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Abstract

This research aims to explore the impact of internal control quality on the market value of real estate companies listed on the Stock Exchange of Thailand using secondary data of 110 companies over a 3-year period from 2021 to 2023. The price-to-sales ratio (P/S) is set as the dependent variable, while internal control quality (CG) is converted into a categorical variable based on the corporate governance score. In addition, the variables of operating profit to revenue (OPM), business size (Log Total Assets), business age, and financial risk (Debt-to-Equity) are controlled. The data are analyzed by using multiple regression. The model test results indicate that the model is appropriate, as shown by a statistically significant F-statistic. Internal control quality exhibits a significantly negative relationship, suggesting that companies with higher governance scores may be undervalued within the Thai real estate industry. Operating profit has a positive influence on the price-to-sales ratio, while both firm size and financial risk also show significant effects positive for firm size and negative for financial risk. The effect of firm age is not statistically significant. An examination of multicollinearity reveals acceptable variance inflation factor values, and the Durbin-Watson statistic confirms the absence of autocorrelation issues. The findings suggest that operating efficiency, capital structure, and firm size remain key drivers of market valuation, whereas internal control quality may exert a short-term negative impact under Thailand's regulatory conditions. These results have implications for executives in shaping governance policies that balance strict oversight with operational flexibility. From a theoretical perspective, the study contributes to the understanding of internal control's role in

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the real estate sector of developing economies and recommends future research to incorporate ESG disclosure variables and long-term dynamic analysis to validate the observed relationships.

Keywords: Internal Control Quality, Market Value, Price-to-Sales Ratio, Corporate Governance

Introduction

In the context of the current highly uncertain economy, building corporate confidence has become an important factor influencing investors' decision-making, especially in the real estate industry, which is a business that requires a large amount of investment, long project duration, and complex risks. Having a strong internal management system is therefore an essential element for sustainable business operations. An effective internal control system supports risk management, financial data management, and transparent corporate governance. Organizations with quality internal controls can often reduce data discrepancies, reduce opportunities for fraud, and increase credibility in the eyes of investors (COSO, 2013). Such confidence may be reflected through the level of valuation of the company in the capital market. Another important indicator of investor confidence is the price-to-sales ratio (P/S), which is an indicator that reflects the market's expectations of the company's income. If the company can generate consistent income and has a reliable management system, the market will tend to give a higher valuation through an increased Price-to-Sales ratio value (Penman, 2013). This indicator is therefore appropriate for industries that rely on a continuous stream of income to return capital and generate long-term profits.

However, it is important to acknowledge that the Price-to-Sales ratio also has limitations. For example, it does not account for differences in cost structures or profitability across firms, and it may not fully capture short-term market sentiment or firm-specific risks. Recognizing these limitations earlier in the chapter helps to facilitate a more accurate interpretation of later results and strengthens the overall validity of the analysis.

In addition, the Price-to-Sales ratio is particularly appropriate for valuing real estate companies because it focuses on revenue generation rather than accounting profits, which can fluctuate due to depreciation, project delays, or non-cash adjustments common in this industry. By emphasizing sales, the Price-to-Sales ratio reflects the firm's ability to sustain cash inflows from property development and leasing activities, which are crucial for long-term viability and investor confidence.

As mentioned, the real estate industry in Thailand is one of the business groups that plays an important role in the economic system. There are both residential and commercial investments. However, at the same time, it is also faced with the volatility of interest rates, economic conditions, and liquidity constraints. Therefore, enhancing the quality of internal control systems may help increase the potential for project management, reduce structural risks, and build confidence among shareholders and investors in the capital market. Although there is research that studies the relationship between governance and overall enterprise value, there is still a lack of in-depth studies that directly analyze the quality of internal control and the Price-to-Sales ratio in the context of real estate companies listed on the Stock Exchange of Thailand (Krismas & Pongkrapan, 2019). Therefore, this study aims to analyze the relationship between the quality of internal control and market valuation, using Price-to-Sales as the main indicator while controlling for other related variables, including business size, company age, financial risk level, and operating profit margin (OPM). The research results aim to create a deeper understanding of the role of internal control in driving business value and provide guidelines for executives in the real estate industry to design governance strategies to create long-term competitive advantage.

Research Objectives

1. To assess the quality of internal control systems in real estate companies listed on the Stock Exchange of Thailand
2. To study the relationship between the quality of internal control and the price-to-sales ratio (P/S)

Literature Review

1. The Concept of Internal Control

Internal control systems are an important mechanism used by organizations to prevent risks, increase the accuracy of financial information, and promote good governance (Chenhall & Moers, 2015). Organizations with strong internal controls are more likely to detect and prevent potential errors in a timely manner, as well as promote financial discipline and performance in line with set goals. In addition, the study of Ge et al. (2011) found that companies with internal control weaknesses tend to report incorrect financial results, have higher investment risks, and are evaluated by the market at a lower level than companies with good internal controls. In addition, Doyle et al. (2007) proposed that deficiencies in

internal control systems are associated with a decrease in the quality of earnings, which may affect the market valuation of the company. Recent studies such as Wang et al. (2022) and Coates (2015) further support that internal control quality not only enhances financial reliability but also improves firms' ESG performance and stakeholder trust, particularly in emerging markets where institutional monitoring mechanisms are still developing. This suggests that internal control serves as both a governance and sustainability mechanism in corporate valuation.

2. The Concept of the Market Value of a Business

Market value reflects investors' expectations of the company's earnings potential. The Price-to-Sales ratio is one of the tools used to analyze value by comparing the stock price to total sales revenue (Wahlen et al., 2018). Analysts often use Price-to-Sales ratio for businesses with continuous income or in the expansion phase, even though profits are still uncertain. Abarbanell and Bushee (1997) study showed that the company's earnings forecast ability and transparency are factors that the market values in positive valuations, especially when the organization discloses financial information and reports that are consistent with its actual operating conditions. In emerging markets, studies by Wang et al. (2022) and Coates (2015) revealed that valuation metrics such as the Price-to-Sales ratio are increasingly used to capture investor sentiment towards firms with strong disclosure and sustainability performance. The growing influence of ESG transparency reinforces that market value is not solely driven by financial outcomes but also by corporate governance credibility and social responsibility.

3. Signaling Theory

Signaling theory explains that managers send “signals” to the capital market through certain behaviors or information to indicate the quality of the business (Spence, 1973). Having a good internal control system is a positive signal reflecting discipline and readiness in managing the business, which may cause the market to value the business at a higher level. In this context, internal control quality acts as a non-financial signal of managerial integrity and long-term stability. However, when empirical results contradict the expected positive relationship, signaling theory can still explain market reactions, if investors perceive excessive governance or compliance costs as negative signals of reduced flexibility or profitability (Connelly et al., 2011). Thus, the interpretation of “signals” depends on market maturity and investor sophistication.

4. Sustainability and Internal Control Context in Capital Markets

In recent years, the global investment landscape has increasingly emphasized corporate sustainability, governance, and transparency. KPMG (2022) reported that more than 90% of the world's top 250 companies now publish sustainability reports, and investors are paying closer attention to non-financial indicators as part of their valuation decisions. This reinforces the role of internal control as a critical infrastructure not only for financial reporting but also for driving transparent and responsible business practices. In Thailand, the Stock Exchange of Thailand (SET) continues to promote sustainability disclosure frameworks aligned with GRI and integrated reporting models, encouraging listed companies to strengthen governance systems to foster long-term value (The Stock Exchange of Thailand, 2024). These developments suggest that internal control quality should be studied not only in terms of its financial reporting utility, but also in how it signals credibility and sustainability to the capital market. More recent literature (e.g., Deloitte, 2023) indicates that ESG governance mechanisms enhance internal control effectiveness by integrating ethical standards and stakeholder accountability. This is particularly critical in emerging markets, where rapid regulatory changes and lower enforcement levels increase the importance of voluntary governance signaling.

5. Empirical Evidence on Internal Control and Market Valuation in Emerging Markets

Past studies in developing countries suggest that the market response to corporate governance and internal control quality may differ from that in developed economies due to variations in regulatory enforcement, investor perception, and capital market maturity. Ashbaugh-Skaife et al. (2006) found that firms with weak internal control and poor governance tend to receive lower credit ratings and market valuations. However, in contexts where compliance is perceived as formality, high governance scores may not translate into higher market value immediately, especially in capital-intensive sectors such as real estate. This aligns with Krismas and Pongkrapan (2019), who emphasized that in Thailand, the real estate sector tends to weigh project delivery and capital turnover more heavily than rigid internal control adherence in determining firm performance. Therefore, the relationship between internal control and valuation requires further exploration in local regulatory and industry contexts. Moreover, recent comparative research (Li et al., 2016; Wang et al., 2022) shows that in emerging economies, excessive governance or disclosure requirements may impose compliance costs that reduce short-term profitability, a perspective known as the *Regulatory Burden Hypothesis*. This hypothesis suggests that while governance improves transparency, it

can simultaneously constrain managerial flexibility, leading to a negative or insignificant relationship with market valuation. Accordingly, understanding this paradox through both signaling theory and regulatory burden perspectives is crucial for interpreting results in the Thai real estate context, where investor confidence interacts with cost-sensitive business environments.

6. Hypothesis Development

Based on the literature reviewed, this study hypothesizes that internal control quality has a significant relationship with market valuation. Specifically, firms with stronger internal control systems are expected to achieve higher Price-to-Sales ratio ratios due to enhanced transparency and investor confidence. However, considering the Regulatory Burden Hypothesis, the direction of this relationship may vary depending on the cost-benefit balance of compliance within the Thai real estate industry. Therefore, the following hypothesis is proposed:

H1: The quality of internal control has a significant effect on the market valuation (Price-to-Sales ratio ratio) of real estate companies listed on the Stock Exchange of Thailand.

Conceptual Framework

The research conceptual framework is as shown in Figure 1.

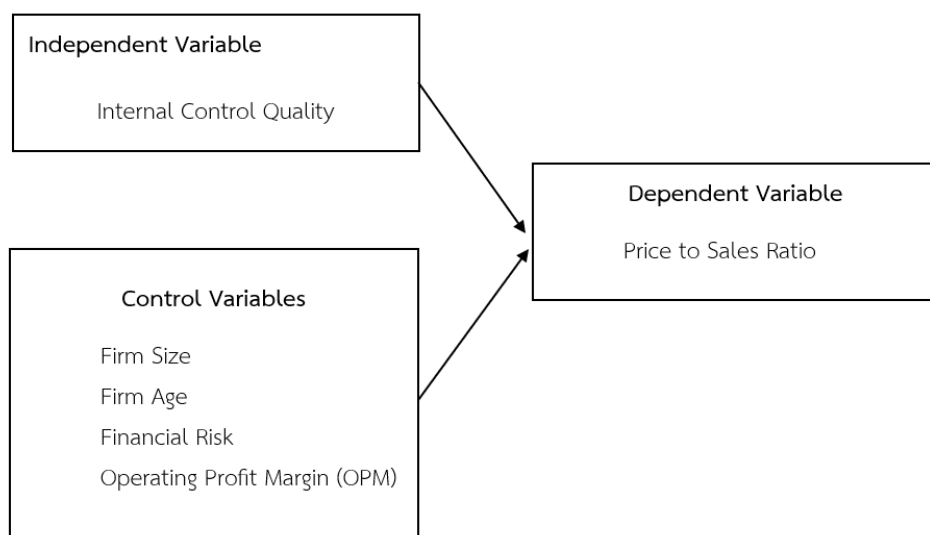


Figure 1 Conceptual Framework

Research Methodology

Research Design

This study is quantitative research using multiple regression analysis to assess the impact of internal quality control on the market value of real estate companies listed on the Stock Exchange of Thailand throughout 2021–2023. The three-year data period is treated as a short-term observation (snapshot) to capture the immediate response of the market to changes in governance quality and financial performance, rather than to establish long-term causality.

Population and Sample

The population consists of 110 real estate companies listed on the Stock Exchange of Thailand (SET) as of April 30, 2025. Data were collected for three consecutive years (2021 – 2023). The sample includes only companies with complete data for all three years, covering share price, revenue, total assets, corporate governance score, and debt-to-equity ratio.

Purposive sampling was adopted to ensure the continuity and completeness of the dataset, as missing data could distort time-series comparability. This sampling approach focuses on firms with consistent disclosure and complete financial data, which allows for more accurate regression analysis. However, it may introduce selection bias, since firms with higher disclosure standards or better governance are more likely to be included. This potential bias will be discussed in the limitation section and controlled by including firm characteristics such as firm size and age in the regression model.

Source of Data

Price and financial data were obtained from the SETSMART database and annual reports (Form 56-1 One Report). Corporate governance scores were sourced from the Thai Institute of Directors Association (Thai IOD), which provides annual corporate governance (CG) assessment reports for listed firms in Thailand.

Variables Used in the Study

This study uses five main variables: one dependent variable, one independent variable, and three control variables, as described below.

1. Dependent Variable

Market Value (Price-to-Sales Ratio) represents the market's assessment of firm value, calculated as the average share price per year divided by total sales revenue in the same year. This variable is a continuous ratio scale.

2. Independent Variable

Corporate Governance Quality (CG Score) used as a proxy for internal control quality. This substitution is based on the argument that CG scores reflect the effectiveness of monitoring and internal control mechanisms, including board oversight, transparency, and risk management practices (Mansour et al., 2022). In emerging markets such as Thailand, the corporate governance assessment conducted by the Thai IOD is widely recognized as a reliable external evaluation of internal control and transparency quality.

The CG score is converted into a dummy (binary) variable to simplify interpretation:

- Value 1 indicates that the company received a “Very Good” or “Good” CG score (level 5 or 4).
- Value 0 indicates a “Fair” or “Satisfactory” CG score (level 3 or below).

Additionally, a robustness check is performed by using the CG score as a continuous variable (ranging from 1 to 5) to test whether the relationship between CG quality and firm valuation remains consistent across different measurement specifications.

3. Control Variables

3.1 Firm Size: Measured by the logarithm of total assets (Log of Total Assets) to solve the problem of non-normal distribution and reduce the impact of large differences in size between companies. This variable is in the form of a continuous quantitative variable.

3.2 Firm Age: Measured by the number of years since the company was founded until the year of study to reflect experience, stability and business cycle. This variable is in the form of a discrete quantitative variable.

3.3 Financial Risk: Measured by the debt-to-equity ratio, which indicates the level of risk in the capital structure of the company. This variable is in the form of a continuous ratio variable.

3.4 Operating profit margin (OPM): Measured by the ratio of operating profit to total revenue, Operating Profit Margin (OPM) reflects the company's efficiency in managing its core operations. This variable is expressed as a continuous ratio variable, indicating how much profit a company generates from its operating activities relative to its sales. All control variables are continuous, except AGE (discrete).

Equational modeling

$$P/S_{it} = \beta_0 + \beta_1(CG)_{it} + \beta_2(Size)_{it} + \beta_3(Age)_{it} + \beta_4(Risk)_{it} + \beta_5(Opm)_{it} + \varepsilon$$

Where

P/S = Price to Sales Ratio

CG = Quality of Internal Control

Size = Size of the Company (may use Log of Total Assets or Revenue)

Age = Age of the Company (number of years since establishment)

Risk = Financial Risk (may be measured by Debt-to-Equity or Current Ratio)

OPM = Operating Profit Margin

ϵ = Error Term

Data analysis steps

Starting from descriptive statistics to describe data characteristics, followed by model hypothesis testing, including normality of error values, homogeneity of variance, relationship problems between independent variables, and checking for Ortho correlation through Durbin-Watson values. Then, multiple regression was performed to interpret coefficients and test the statistical significance of independent variables under the significance level of 0.05.

Research Finding

The data analysis this time was divided into 2 parts: (1) descriptive statistical analysis and (2) multiple regression analysis to answer the research objectives that aimed to study the relationship between the quality of internal control and the market value of the company, with business size, age of the company, and financial risk as control variables.

Descriptive statistical analysis**Table 1** Descriptive statistical analysis table

	Mean	Std. Deviation	N
Price-to-Sales ratio	2.02	3.29	269
OPM	0.16	0.13	269
Age	32.73	14.93	269
Risk	0.49	0.22	269
Size	3.99	0.96	269

Table 1 shows descriptive statistics of 110 companies in the real estate industry group registered in the Stock Exchange of Thailand over a period of 3 years. There were 90

companies with complete data for all three years. The price-to-sales ratio had an average of 2.02 and a standard deviation of 3.29. The operating profit to revenue (OPM) had an average of 0.16 and a standard deviation of 0.13. The age of the company (Age) had an average of 32.73 years and a standard deviation of 14.93 years. Financial risk (Risk) measured by the debt-to-equity ratio had an average of 0.49 and a standard deviation of 0.22. The size of the company (Size) measured by the logarithm of total assets had an average of 3.99 and a standard deviation of 0.96.

Multiple regression analysis

Table 2 Multiple regression analysis table

Variable	Unstandardized Coefficients		standardized Coefficients	t	Sig.	VIF
	B	S.E.	Beta			
(Constant)	-0.388	0.802		-0.484	0.629	
CG	-1.052	0.379	-0.158	-2.775**	0.006**	1.095
OPM	7.505	1.407	0.307	5.332**	0.000**	1.125
Age	-0.019	0.013	-0.086	-1.516	0.131	1.094
Risk	-4.103	1.006	-0.273	-4.079**	0.000**	1.522
Size	1.13	0.243	0.331	4.658**	0.000**	1.715
R=0.474 R ² =0.225 Adjusted R ² =0.210 SE _{Est} =2.922 F=15.260 *p < .05, **p < .01						

From Table 2, it shows the results of the multiple regression analysis between the dependent variable, namely, the price-to-sales ratio and the independent variables, namely, the quality of internal control (CG) and the covariate OPM (operating profit to revenue), along with three control variables, namely, the age of the business (Age), financial risk (Risk), and the size of the business (Size). The analysis results found that the model had an R Square value of 0.225 and an Adjusted R Square of 0.210, indicating that the model could explain the variance of the Price-to-Sales ratio by 21.0 percent, which is at a statistically acceptable level. The F value was statistically significant at the 0.01 level ($F = 15.260$, $p < 0.01$), reflecting that the model had overall appropriateness and was able to significantly predict the dependent variable.

In terms of the independent variables, it was found that the quality of internal control (CG) had a coefficient of B equal to -1.052 and a Beta value equal to -0.158 with a t-statistic value = -2.775 and a Sig. value = 0.006, which were statistically significant at the 0.01 level, indicating that the quality of internal control had a significantly negative relationship with the Price-to-Sales ratio. This finding appears to contrast with the initial research objective, which expected a positive association between governance quality and market valuation, as suggested by previous literature (Ge et al., 2011; Doyle et al., 2007). However, this result aligns with the concept of the Regulatory Burden Hypothesis and Cost of Compliance Theory, which argue that excessive governance or compliance requirements can impose operational and administrative costs that reduce firms' short-term profitability.

In the context of Thailand's real estate sector, where projects are capital-intensive and rely heavily on liquidity, stronger governance mechanisms may temporarily constrain managerial flexibility and increase procedural costs, leading to a short-term decline in valuation ratios such as Price-to-Sales ratio. This explanation is consistent with findings from emerging markets where compliance is sometimes viewed as a regulatory obligation rather than a strategic advantage. Thus, the negative coefficient of CG may reflect an adjustment period in which firms are absorbing the costs of governance implementation before reaping its long-term credibility benefits.

From a theoretical perspective, this finding can also be interpreted through the lens of the *Resource-Based View (RBV)*. Under this framework, governance and internal control systems are considered intangible resources that enhance long-term competitiveness when effectively integrated into firm strategy. However, when these systems are externally imposed or inefficiently managed, they may fail to generate competitive advantage in the short run and instead act as constraints on resource allocation (Barney, 1991; Connelly et al., 2011). Therefore, the short-term negative effect observed in this study does not necessarily contradict the RBV but rather indicates that governance quality must be strategically embedded and cost-effective to contribute to firm value over time.

For the OPM variable, it had a coefficient of B equal to 7.505 and a Beta value equal to 0.307 with a Sig. value = 0.000, indicating that operating profit had a significantly positive relationship with the Price-to-Sales ratio. This result supports the notion that firms with higher operational efficiency and profitability are valued more favorably by the market (Penman, 2013). For the control variables, it was found that the size of the business (Size) had a

coefficient of B equal to 1.130 and a Beta equal to 0.331 with a Sig. value = 0.000, indicating a significantly positive relationship. Meanwhile, financial risk (Risk) had a coefficient of B equal to -4.103 and a Beta equal to -0.273 with a Sig. value = 0.000, which showed a significantly negative relationship. As for the age of the business (Age), no statistically significant relationship was found ($p = 0.131$).

The examination of the problem of the relationship between independent variables (Multicollinearity) found that the VIF values of all variables were in the range of 1.095–1.715, which was lower than the critical criterion of 5, indicating that there was no problem of the relationship between the independent variables. The Durbin–Watson value was 2.12, which was close to 2, indicating that there was no problem of autocorrelation of the error values. This showed that this regression equation model could explain the variance of the Price-to-Sales ratio at a significant level. The variables that affected the market value of the company were the quality of internal control, operating profit, financial risk, and business size, while the age of the company was not statistically significant in this model.

In summary, these results partially support the research objectives by confirming that internal governance quality does influence firm valuation, though in a direction opposite to the initial hypothesis. The findings contribute to the literature by emphasizing the nuanced impact of governance in emerging markets, suggesting that while strong governance enhances long-term sustainability, it may simultaneously create short-term market inefficiencies due to regulatory and compliance burdens. This provides valuable implications for policymakers and managers in balancing governance rigor with operational agility to sustain competitiveness and market confidence in Thailand's real estate industry.

Discussion

The research results found that the quality of internal control (CG) had a significant negative relationship with the Price-to-Sales ratio, which was inconsistent with the concept of Spence (1973) signaling theory, which stated that organizations with good governance or internal control would send positive signals to investors. However, this negative result may reflect short-term market perceptions rather than a true decline in firm value. In the context of Thailand's real estate sector, strong governance frameworks may initially be viewed as increasing administrative burden or delaying investment decisions, which can reduce operational flexibility and short-term profitability. This interpretation aligns with the

Regulatory Burden and Cost of Compliance perspectives, suggesting that governance implementation involves upfront costs that the market may temporarily penalize.

At the same time, such results should not be interpreted as discouraging governance improvement. Instead, they highlight the importance of balancing compliance with efficiency. Over the long term, well-designed corporate governance and internal control systems can enhance transparency, build investor confidence, and reduce financing costs—thereby supporting sustainable growth. Therefore, although the observed relationship is negative in the short run, the policy implications remain positive in the long term, emphasizing the need for proportionate and value-driven governance strategies.

As for the operating profit (OPM) variable, which is a covariate, it was found to have a significant positive relationship with the Price-to-Sales ratio value, which is consistent with the results of the study by Abarbanell and Bushee (1997), who found that profitability affects the valuation of stocks from the capital market and indicates that investors prioritize the quality of earnings when considering the value of the firm. For the control variable, the size of the firm (Size) was found to have a significant positive relationship with the Price-to-Sales ratio, which is consistent with the concept from the Resource-Based View (Barney, 1991) that explains that firm size reflects the ability to access resources, market power, and stakeholder confidence. Financial risk (Risk) had a significant negative relationship with Price-to-Sales ratio, supporting the idea that companies with high leverage are assessed as having higher risk and therefore receive a lower market value (Wahlen et al., 2018). Meanwhile, firm age (Age) did not show a statistically significant relationship, consistent with prior findings that age alone does not determine valuation but rather depends on adaptability and profitability (Díez-Esteban et al., 2017).

These results collectively suggest that while corporate governance may have a short-term cost effect in emerging markets, it remains an essential strategic resource in the long term. From a Resource-Based View, internal governance mechanisms can become unique intangible assets when efficiently integrated into business strategy, yielding sustainable competitive advantage once compliance costs are absorbed.

Contribution

1. Academic Contribution: This research enhances academic understanding of corporate governance and internal control mechanisms by empirically examining their effect

on market valuation through Price-to-Sales ratio. It also addresses a research gap in Thailand by linking governance quality to capital market responses in a specific industry context. The findings contribute to the debate on how governance may create both short-term constraints and long-term value enhancement in emerging markets.

2. **Organizational and Policy Contribution:** The results provide insights for executives and regulators to design governance systems that balance compliance with efficiency. Although the short-term impact appears negative, the findings underline that strong internal control remains vital for long-term transparency, credibility, and investor trust. Policymakers can therefore use these findings to refine corporate governance codes, encouraging proportionate oversight that strengthens competitiveness without overburdening firms.

3. **Investment Contribution:** For investors and analysts, the study suggests that governance quality should be interpreted carefully in the short term. Temporary declines in valuation may reflect transition costs rather than structural weaknesses. Over time, firms with consistent governance practices are more likely to achieve sustainable earnings and lower information risk, aligning with the principles of responsible investment.

Limitations and Future Research

This study has several limitations. First, the observation period covers only three years (2021–2023), representing a short-term snapshot that may not capture the full impact of governance initiatives, which often take longer to influence market performance. Second, the use of the Price-to-Sales ratio as the sole valuation indicator may not fully reflect all aspects of market confidence, particularly in capital-intensive industries like real estate. Future research could apply multi-period (longitudinal) data and additional valuation metrics such as Tobin's Q or market-to-book ratio to validate the robustness of the findings.

In addition, future studies should broaden the scope of governance indicators by incorporating sustainability reporting, ESG disclosure, and board characteristics. Cross-industry comparisons could also reveal whether the short-term negative perception of governance is unique to real estate or shared across other capital-intensive sectors. Finally, combining quantitative and qualitative methods, such as interviews with executives, could provide deeper insights into how governance structures influence strategic decisions and investor sentiment over time.

In summary, while the study finds a short-term negative relationship between corporate governance quality and firm valuation, it provides valuable long-term policy

implications. The findings highlight that governance improvement should be viewed as an investment in future credibility and sustainable value creation, rather than as an immediate financial constraint.

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