DO FINANCIAL FUNDAMENTALS DRIVE FIRM VALUE? THE MODERATING ROLE OF FIRM SIZE IN AN EMERGING MARKET: EVIDENCE FROM THAILAND

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Abstract

This research investigates how financial fundamentals contribute to firm value and examines the moderating role of firm size in an emerging market characterized by economic uncertainty. The analysis covers 2,565 firm-year observations from 579 companies listed on the Stock Exchange of Thailand over the period 2021–2025. Financial information was gathered from Bloomberg databases and publicly available corporate reports. The study employed panel-data regression analysis. Both fixed-effects and random-effects models were estimated, with model selection based on the Hausman test. Firm-clustered robust standard errors were used to improve the robustness of the estimation, while profitability (ROA) and firm growth were included as control variables.

Key findings can be summarized as follows:

1. Cash flow generated from operating activities emerged as the strongest factor associated with firm value, indicating that investors place considerable emphasis on firms' ability to sustain internal funding capacity and withstand financial uncertainty.

2. Firms with more efficient asset utilization tended to achieve higher market valuations, whereas debt financing did not appear to play a meaningful role in explaining differences in firm value.

3. Organizational size showed little evidence of altering the relationships between financial fundamentals and firm value. However, the interaction between operating cash flow and firm size was positive, suggesting that the valuation benefits of strong cash-generation capability become more pronounced among larger firms.

Taken together, the findings indicated that investors increasingly focus on operational effectiveness and long-term cash-generation capacity when assessing corporate value in emerging market environments. These findings contribute to the literature on firm valuation by providing evidence from Thailand and offer practical implications for corporate managers and investors seeking to enhance firm value through

stronger operating performance, efficient resource utilization, and sustainable cash-flow management.

Keywords: Firm Value, Financial Fundamentals, Operating Cash Flow, Capital Structure, Tobin's Q

Introduction

Firm value is one of the most important objectives in corporate finance because it reflects investors' expectations regarding firms' future growth, financial sustainability, and long-term performance. In capital markets, investors increasingly rely on financial information to evaluate firms' operational quality, financial stability, and competitive capability. Prior studies suggest that transparent and reliable financial information reduces information asymmetry, improves investor confidence, and enhances market valuation (Healy & Palepu, 2001; Dechow et al., 2010).

In recent years, the importance of financial fundamentals has increased due to economic uncertainty, rising interest rates, inflationary pressure, and financial market volatility (Mazur et al., 2021). In Thailand, the post-pandemic period (2021–2025) was marked by heightened capital market volatility, making firms' financial resilience an increasingly important consideration in investors' valuation decisions. Under these conditions, investors place greater emphasis on firms' operational sustainability and cash-generating ability rather than organizational scale alone. Firms capable of generating stable operating cash flow and utilizing assets efficiently are therefore more likely to gain investor confidence and achieve higher market valuation (Ngo et al., 2023; Jung & Choi, 2024; Veerhoek, 2024).

Financial fundamentals are widely recognized as important determinants of firm value. Capital structure reflects firms' financing decisions and financial risk. Asset management efficiency represents firms' ability to utilize resources effectively, while operating cash flow reflects internal liquidity generation and operational sustainability. These indicators are considered important signals used by investors to evaluate firm quality and future economic prospects (Frank & Goyal, 2009; Penman, 2013). However, prior empirical findings remain inconclusive. Some studies report positive relationships between financial fundamentals and firm value, whereas others find weak or insignificant effects depending on firm characteristics and market conditions (Marchica & Mura, 2010; Jung & Choi, 2024).

Organizational scale is often considered a factor that may affect investors' assessment of corporate financial information. Large firms generally possess greater operational resources and stronger access to capital markets, whereas smaller firms are

more likely to encounter financing limitations and business uncertainty. These differences may influence the extent to which financial fundamentals are reflected in market valuation. However, evidence concerning the conditional effect of firm size on the relationship between financial fundamentals and firm value remains relatively scarce, particularly in the context of developing economies (Cheng et al., 2013; Le et al., 2024).

To provide further insight into this issue, the present research evaluates the association between financial fundamentals and firm value while considering the potential influence of organizational size. The analysis is based on panel data obtained from companies listed on the Stock Exchange of Thailand during 2021–2025. Particular attention is given to three key financial dimensions: capital structure, asset utilization efficiency, and operating cash flow. Through this approach, the study seeks to enhance understanding of how investors assess corporate value in an environment characterized by economic volatility.

The study offers several contributions. First, it combines multiple financial indicators within a single analytical framework rather than examining them separately, allowing a more comprehensive assessment of factors associated with firm value. Second, it explores whether differences in organizational scale alter the relevance of financial information in market valuation. Finally, the findings suggest that investors place greater emphasis on operational effectiveness and the ability to generate sustainable cash flows than on firm size itself when making valuation judgments during uncertain economic periods.

Research objectives

1. To examine the influence of financial fundamentals on firm value among firms listed on the Stock Exchange of Thailand.

2. To investigate the moderating role of firm size in the relationship between financial fundamentals and firm value.

3. To provide empirical evidence regarding investor valuation behavior in an emerging market under conditions of economic uncertainty.

Literature Review

Financial Fundamentals and Firm Value

Firm value reflects investors' expectations regarding firms' future performance and financial sustainability. Financial fundamentals derived from accounting information are important determinants of firm value because they signal firms' operational quality

and financial stability (Penman, 2013; Koller et al., 2020;). Investors increasingly rely on these indicators when evaluating firms under economic uncertainty.

Financial fundamentals comprise capital structure, asset management efficiency, and operating cash flow. Together, these dimensions capture key aspects of firms' financing, operating efficiency, and liquidity generation that are relevant to firm valuation. Capital structure reflects financing decisions and financial risk, asset management efficiency captures firms' ability to utilize resources effectively, and operating cash flow represents internal liquidity generation and operational sustainability. Prior studies suggest that stronger operational efficiency and cash-generation capability enhance firm value and investor confidence (Masulis, 1983; Rajan & Zingales, 1995; Fama & French, 1998; Marchica & Mura, 2010; Ngo et al., 2023). Financial flexibility further supports firm value by enabling firms to undertake profitable investments and strengthen financial resilience (Marchica & Mura, 2010; Butt et al., 2023).

The relationship between financial fundamentals and firm value is supported by Agency Theory, Trade-off Theory, and Information Asymmetry Theory. Agency Theory suggests that reliable financial information reduces agency costs (Jensen & Meckling, 1976), Trade-off Theory explains firms' financing decisions to maximize firm value (Myers, 2001), and Information Asymmetry Theory emphasizes that transparent financial reporting reduces uncertainty and improves investor confidence (Healy & Palepu, 2001).

Despite strong theoretical support, empirical findings remain mixed. While some studies report positive relationships between financial fundamentals and firm value, others find weak or insignificant effects depending on institutional environments, firm characteristics, and market conditions (Claessens & Yurtoglu, 2013; Vo & Ellis, 2017; Bui et al., 2023). Evidence from Vietnam indicates that growth, firm size, capital structure, and profitability influence enterprise value (Dang et al., 2019). Consistent with this view, evidence from Thailand suggests that higher leverage tends to reduce firm value (Wongyai et al., 2017), whereas stronger operational efficiency enhances market valuation (Choomnirat & Ritthidach, 2023). These findings imply that investors do not respond equally to all financial fundamentals. Instead, different dimensions of financial performance may exert different valuation effects depending on market characteristics and institutional settings. Therefore, further evidence from the Thai capital market remains necessary to clarify the relative importance of capital structure, operational efficiency, and operating cash flow in explaining firm value.

Based on the literature discussed above, the following hypotheses are proposed:

H1: Capital structure (DR) is negatively associated with firm value.

H2: Asset management efficiency (TAT) is positively associated with firm value.

H3: Operating cash flow (CFOTA) is positively associated with firm value.

Firm Size and Investor Valuation Behavior

Firm size is widely recognized as a factor influencing investors' assessment of corporate financial information. Large firms generally benefit from greater resource availability and easier access to external capital, whereas smaller firms face greater financing constraints and business uncertainty. These differences may affect the extent to which financial information is reflected in market valuation.

Existing studies indicate that firm-specific characteristics can influence the usefulness of financial information in explaining corporate performance and investment outcomes (Cheng et al., 2013; Le et al., 2024). However, empirical evidence regarding the moderating role of firm size remains inconclusive. While some studies suggest that larger firms benefit more from stronger financial fundamentals because of greater investor confidence and resource availability, others report that firm size has limited influence once firms' financial performance and operating efficiency are taken into account. These mixed findings suggest that the moderating effect of firm size may vary across firm characteristics and market environments, providing the basis for examining firm size as a moderator in this study (Cheng et al., 2013; Le et al., 2024).

Drawing on these arguments, the following hypotheses are proposed:

H4: Firm size moderates the relationship between capital structure (DR) and firm value.

H5: Firm size moderates the relationship between asset management efficiency (TAT) and firm value.

H6: Firm size moderates the relationship between operating cash flow (CFOTA) and firm value.

Knowledge Gap and Research Development

Previous studies indicate that financial fundamentals play important roles in explaining firm value. However, prior research has primarily focused on isolated financial indicators such as leverage, profitability, or liquidity rather than integrating multiple dimensions of financial fundamentals within a unified empirical framework. Although financial fundamentals have been widely examined, previous research has reported varying results, indicating that their influence on firm value may depend on the economic and institutional setting in which firms operate.

Although firm size has frequently been discussed as a relevant organizational attribute, relatively little is known about whether it alters the way financial fundamentals are reflected in firm value. Existing research has largely concentrated on direct

associations, while the potential influence of organizational scale on investor evaluation of financial information has received considerably less attention.

To address this issue, the present study introduces an integrated framework that combines capital structure, asset utilization efficiency, operating cash flow, and firm size in explaining firm value among Thai listed companies. By examining these factors simultaneously, the study seeks to enhance understanding of investor valuation behavior in an emerging economy facing uncertain business conditions.

Research Framework

This study examines the relationship between capital structure, asset management efficiency, operating cash flow, and firm value. The framework is grounded in Agency Theory, Trade-off Theory, and Information Asymmetry Theory. Firm size serves as a moderating variable, whereas profitability and firm growth are included as control variables.

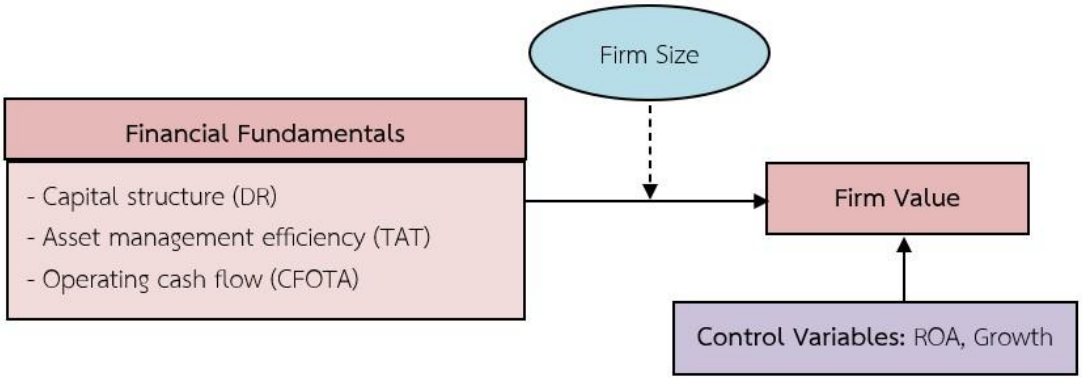


Figure 1 shows conceptual framework

Research Methodology

Sample Selection and Data Sources

This study employed a quantitative research design using secondary panel data obtained from companies listed on the Stock Exchange of Thailand (SET) during 2021–2025. The sample was selected using purposive sampling, whereby all listed companies meeting the predefined selection criteria were included in the analysis. Financial institutions, insurance companies, mutual funds, and other financial-service firms were excluded because they operate under industry-specific regulatory frameworks and accounting standards, possess substantially different capital structures and financial reporting practices, and therefore are not directly comparable with non-financial firms. Companies with incomplete financial information during the study period were also

excluded. After applying these criteria, the final sample consisted of 2,565 firm-year observations from 579 non-financial listed companies.

Variable Measurement

The variables included in this study and their measurements are presented in Table 1.

Table 1 Shows variable definitions and measurements

Variable	Symbol	Measurement
Dependent Variable		
Firm Value	TQ	(Market Value of Equity + Total Debt) / Total Assets
Independent Variable		
Capital Structure	DR	Total Debt / Total Assets
Asset Management Efficiency	TAT	Sales / Total Assets
Operating Cash Flow	CFOTA	Operating Cash Flow / Total Assets
Moderating Variable		
Firm Size	SIZE	Ln (Total Assets)
Control Variable		
Profitability	ROA	Net Income / Total Assets
Firm Growth	GROWTH	(Sales_t – Sales_t–1) / Sales_t–1

Data Analysis

Prior to estimation, continuous variables were winsorized at the 1st and 99th percentiles to mitigate the influence of extreme observations. The empirical analysis combined descriptive statistics, correlation analysis, and panel-data techniques. Both fixed-effects and random-effects specifications were considered, with model selection guided by the Hausman test. To enhance estimation reliability, firm-clustered robust standard errors and year-specific indicators were incorporated into the regressions. Potential multicollinearity was assessed through correlation coefficients and variance inflation factors, with VIF values ranging from 1.045 to 1.496, suggesting no meaningful collinearity concerns. In addition, liquidity was introduced as an alternative control variable to assess the stability of the reported results.

Regression Models

This study employs panel regression models to examine the effects of financial fundamentals on firm value and the moderating role of firm size. The models incorporate capital structure (DR), asset management efficiency (TAT), operating cash

flow (CFOTA), and interaction terms between firm size and financial fundamentals to test the proposed hypotheses.

Main Effects Model (Main Model)

$$TQ_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 TAT_{it} + \beta_3 CFOTA_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 GROWTH_{it} + \varepsilon_{it}$$

Model 1: Moderating role of firm size on the relationship between capital structure and firm value

$$TQ_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 TAT_{it} + \beta_3 CFOTA_{it} + \beta_4 SIZE_{it} + \beta_5 (DR \times SIZE)_{it} + \beta_6 ROA_{it} + \beta_7 GROWTH_{it} + \varepsilon_{it}$$

Model 2: Moderating role of firm size on the relationship between asset utilization efficiency and firm value

$$TQ_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 TAT_{it} + \beta_3 CFOTA_{it} + \beta_4 SIZE_{it} + \beta_5 (TAT \times SIZE)_{it} + \beta_6 ROA_{it} + \beta_7 GROWTH_{it} + \varepsilon_{it}$$

Model 3: Moderating role of firm size on the relationship between operating cash flow and firm value

$$TQ_{it} = \beta_0 + \beta_1 DR_{it} + \beta_2 TAT_{it} + \beta_3 CFOTA_{it} + \beta_4 SIZE_{it} + \beta_5 (CFOTA \times SIZE)_{it} + \beta_6 ROA_{it} + \beta_7 GROWTH_{it} + \varepsilon_{it}$$

Research Results

1. Research Objective 1: The findings revealed that operating cash flow and asset management efficiency positively influenced firm value, while capital structure exhibited a positive but statistically insignificant relationship with firm value.

Table 2 Shows descriptive statistics

Variable	Mean	Median	S.D.	Min	Max
TQ	1.278	0.998	0.867	0.401	5.587
DR	22.911	20.101	19.332	0.000	66.514
TAT	0.677	0.548	0.600	0.017	3.174
CFOTA	0.064	0.059	0.087	-0.193	0.314
SIZE	22.738	22.528	1.545	18.869	28.872
ROA	3.521	3.416	7.122	-21.792	23.159
GROWTH	0.099	0.026	0.493	-0.785	3.161

Table 2 reports the descriptive statistics of the study variables. Tobin's Q recorded an average value of 1.278, suggesting that market valuations generally exceeded book values during the study period. Operating cash flow exhibited a positive mean value, while asset management efficiency reflected relatively effective utilization of corporate resources. The descriptive statistics further indicate moderate variation in firm size and profitability across the observations.

Table 3 Shows correlation matrix

Variable	TQ	DR	TAT	CFOTA	SIZE	ROA	GROWTH
TQ	1						
DR	-0.070***	1					
TAT	0.148***	-0.103***	1				
CFOTA	0.316***	-0.197***	0.260***	1			
SIZE	-0.045**	0.466***	-0.116***	-0.016	1		
ROA	0.298***	-0.242***	0.285***	0.490***	0.041**	1	
GROWTH	0.053***	0.023	0.093***	0.007	0.065***	0.165***	1

Note: *** p < **0.01**, ** p < **0.05**, * p < **0.10**

Table 3 presents the correlation matrix of the study variables. Operating cash flow, asset management efficiency, profitability, and firm growth were positively related to firm value, whereas debt ratio and firm size showed negative associations. Among the explanatory variables, operating cash flow displayed the strongest correlation with firm value. Furthermore, the correlations among the independent variables remained well below the commonly accepted threshold of 0.80, suggesting that multicollinearity is unlikely to be a concern in the analysis.

Table 4 Shows panel regression results

Variables	Main Model	Model 1 (DR)	Model 2 (TAT)	Model 3 (CFOTA)
Constant	2.390*** (0.293)	2.425*** (0.498)	2.885*** (0.415)	2.908*** (0.336)
DR	0.002 (0.001)	0.014 (0.015)		
TAT	0.106*** (0.032)		-0.580 (0.489)	
CFOTA	2.143*** (0.239)			-6.333* (3.405)
SIZE	-0.052*** (0.013)	-0.044** (0.022)	-0.067*** (0.018)	-0.071*** (0.015)
DR × SIZE		-0.001 (0.001)		
TAT × SIZE			0.032 (0.021)	
CFOTA × SIZE				0.381** (0.151)
ROA	0.024*** (0.003)	0.040*** (0.003)	0.036*** (0.003)	0.025*** (0.003)

Variables	Main Model	Model 1 (DR)	Model 2 (TAT)	Model 3 (CFOTA)
GROWTH	0.060 (0.038)	0.043 (0.039)	0.034 (0.039)	0.071* (0.038)
Observations	2,565	2,565	2,565	2,565
Number of firms	579	579	579	579
Within R^2	0.198	0.157	0.166	0.195
F-statistic	35.108	30.358	30.760	30.118
Prob > F	0.000	0.000	0.000	0.000
Firm Fixed Effects	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes

Note: Variable definitions and measurement formulas are presented in Table 1. Robust standard errors clustered at the firm level are reported in parentheses. Firm fixed effects and year dummies are included in all models. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 4 indicates that operating cash flow and asset management efficiency were positively related to firm value, while capital structure showed no significant effect. Firm size was negatively associated with firm value across most specifications. The interaction terms involving debt ratio and asset management efficiency were not significant, whereas the interaction between operating cash flow and firm size was positive and significant, implying a stronger valuation effect of operating cash flow among larger firms

2. Research Objective 2: Table 4 indicates that firm size did not significantly alter most of the relationships between financial fundamentals and firm value. Nevertheless, the interaction between operating cash flow and firm size was positive and statistically significant, suggesting that the association between operating cash flow and firm value becomes stronger among larger firms

3. Research Objective 3: The results imply that operational efficiency and cash-generation capability are important considerations in firm valuation. The findings further highlight the relevance of financial quality and operational sustainability in shaping market valuation within an environment characterized by economic uncertainty.

Discussion

The findings addressing the first research objective indicate that financial fundamentals play an important role in explaining firm value. Among the examined variables, operating cash flow exerted the strongest positive effect, followed by asset management efficiency, suggesting that investors place greater emphasis on firms' ability

to generate sustainable cash flows and utilize resources efficiently than on financing decisions alone. Operating cash flow reflects firms' financial strength and operational sustainability, whereas efficient asset utilization signals effective managerial capability. These findings support Information Asymmetry Theory, which argues that high-quality financial information reduces uncertainty and improves investors' assessment of firm quality (Healy & Palepu, 2001). They are also consistent with prior studies showing that investors increasingly rely on cash-generation capability and operational efficiency when evaluating firms under uncertain economic conditions (Marchica & Mura, 2010; Ngo et al., 2023; Jung & Choi, 2024).

In contrast, capital structure did not significantly influence firm value, leading to the rejection of H1. This result suggests that investors in the Thai capital market placed greater emphasis on firms' operating performance, liquidity generation, and financial resilience than on leverage during the post-pandemic period. Between 2021 and 2025, many firms increased debt financing primarily to maintain liquidity and support business continuity amid heightened economic uncertainty. Consequently, leverage may not have been interpreted by investors as a value-enhancing signal. This finding differs from evidence reported in several developed markets, where investors generally place greater emphasis on capital structure when evaluating firms because of greater market efficiency and lower information asymmetry (Fama & French, 1998; Frank & Goyal, 2009).

Regarding the second research objective, organizational size exhibited only a limited moderating role in the relationship between financial fundamentals and firm value. Although most interaction effects were insignificant, the positive interaction between operating cash flow and firm size indicates that the valuation benefits of strong cash-generation capability become more pronounced among larger firms. This finding suggests that firm size alone does not enhance market valuation; rather, larger firms are rewarded when they demonstrate superior operating performance and sustainable cash-generation capability. The results are consistent with previous studies emphasizing that investors increasingly value firms with strong financial resilience during periods of economic uncertainty (Ngo et al., 2023; Jung & Choi, 2024).

The third research objective further indicates that investor valuation in emerging markets is increasingly driven by operational quality and internal financial strength rather than by traditional indicators such as leverage or organizational size. These findings reinforce Information Asymmetry Theory by demonstrating that reliable financial information enhances investor confidence and reduces uncertainty (Healy & Palepu, 2001). Overall, the study contributes to the literature by showing that investors in the Thai capital market prioritize operational efficiency, sustainable cash-generation

capability, and financial resilience when assessing firm value under conditions of economic uncertainty.

New Knowledge from the Research

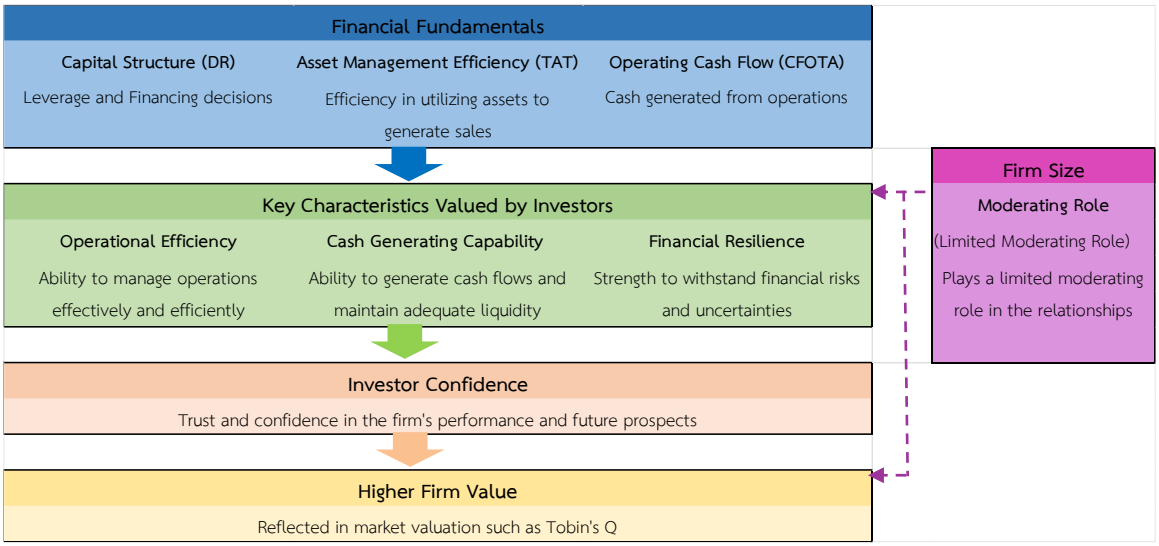


Figure 2 Shows new knowledge framework of financial fundamentals and firm value

This study provides evidence that the valuation relevance of financial fundamentals is not determined solely by organizational size. Instead, market valuation appears to be driven primarily by indicators reflecting operational capability and internal financial strength. The findings suggest that operating cash flow and asset management efficiency represent key mechanisms through which financial fundamentals are translated into firm value, while the contribution of firm size remains comparatively limited. This perspective offers a broader understanding of investor valuation behavior in emerging market environments characterized by economic uncertainty.

Conclusion

The results indicate that firm value is influenced more by financial quality than by organizational scale. Operating cash flow emerged as the strongest determinant of firm value, followed by asset management efficiency, whereas capital structure and firm size showed limited influence. These findings suggest that investors place greater emphasis on firms' financial strength, operational capability, and sustainable cash-generation than on leverage or organizational scale. Theoretically, the study extends Agency Theory, Information Asymmetry Theory, and Trade-off Theory by highlighting the greater valuation relevance of operational capability and cash-generation capacity in

emerging markets. Managerially, the findings suggest that improving operational efficiency, cash flow quality, and financial resilience may enhance firm value.

Recommendation

Recommendation for utilizing research findings

The findings suggest that corporate executives should prioritize improving operating cash flow quality and asset utilization to enhance firm value. In practice, firms may strengthen cash flow by improving working capital management, accelerating receivables collection, and optimizing inventory levels during periods of economic uncertainty. Investors may also use operating cash flow and asset management efficiency as key indicators when evaluating firms' long-term sustainability. From a policy perspective, the Stock Exchange of Thailand (SET) and the Securities and Exchange Commission of Thailand (SEC) may encourage listed companies to enhance disclosures related to operating cash flow sustainability and asset utilization efficiency to reduce information asymmetry and improve investor confidence.

Recommendation for further research

Future research may incorporate additional factors, such as corporate governance, ESG performance, innovation capability, or digital transformation, to further explain firm value. Comparative studies across industries and between emerging and developed markets may provide deeper insights into investor valuation behavior. Future studies may also employ alternative measures of firm value and financial performance to enhance the robustness and generalizability of the findings.

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