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Financial Performance Assessment through Structural Equation Models. an Approach to the Mexican Capital Market

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Abstract

This research aims to evaluate the performance of companies listed on the Mexican Stock Exchange's capital market using structural equation modeling. The sample, chosen for convenience, comprises companies cataloged in the capital goods subsector. Following Chaudhuri et al. (2016), they propose that a company's performance can be measured and explained by two functional groups: active and attributive, among which are Age, Size, and Debt-to-Equity ratio, among the former. At the same time, they listed two ratios, the Return on Assets (ROA) and Tobin's Q, among the latter. The results enable us to identify a positive relationship between the ROA variables and size, as well as with the intensity of research and development. A negative relationship is evident between the debt-to-equity ratio and age. On the other hand, we observed a positive relationship between Tobin's Q variable and both age and the debt-to-equity ratio. We can conclude that structural equation models enable the analysis of the magnitude of the relationship between variables, allowing investors to conduct more accurate performance evaluations and companies to make targeted changes in the areas examined, thereby effectively improving their company's financial performance.

Keywords: Investment; Financial Performance; Relationship; Return over Assets; Tobins's Q