

## **Unobservable effects and speed of adjustment to target capital structure**

### **ABSTRACT**

The paper investigates whether unobservable firm-specific effects such as managerial ability is a major component of the target capital structure. We apply the system generalized method of moments that accounts for unobservable firm-specific effects. Our results reveal that unobservable firm-specific effects such as managerial ability are a major component that explains most of the cross-sectional variation in firms' capital structure in Malaysia.

**Keyword:** Capital Structure; Unobservable Effects; System GMM; Malaysia