

## Testing the Capital Structure Behavior of Malaysian Firms: Shariah vs. Non-Shariah Compliant

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**Abstract :** This paper attempts to investigate the capital structure behavior of Shariah compliant firms of various levels as well those firms who are consistently Shariah non-compliant in Malaysia. The paper utilizes a unique dataset of firms of the heterogeneous level of Shariah-compliance status over a 20 year period from the year 1997 to 2016. The paper focuses on the effects of dynamic forces behind capital structure variation such as the optimal capital structure behavior based on the trade-off, pecking order, market timing and firmly fixed effect models of capital structure. This study documents significant evidence in support of the trade-off theory with a high speed of adjustment (SOA) as well as for the time-invariant firm fixed effects across all Shariah compliance group.

**Keywords :** capital structure, market timing, trade-off theory, equity risk premium, Shariah-compliant firms

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