The Impact of Managerial Ability and Accounting Conservatism on Capital Structure Dynamics: The Case of Egypt.

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Abstract:

This research investigates the dynamic interplay between managerial ability, accounting conservatism, and the speed at which firms adjust their capital structure for firms listed in the Egyptian Stoch Exchange (EGX) for the period 2018 to 2022. The research employs a comprehensive dataset spanning multiple industries and time periods to analyze the impact of managerial ability and accounting conservatism on the speed of capital structure adjustment. The research utilizes a panel data approach and employs various econometric techniques to analyze the data from a sample of publicly listed companies. The research investigates the determinants of capital structure adjustment (SOA) and the roles of managerial ability and accounting conservatism in optimizing corporate financial decisions. The findings indicate that firms adjust their capital structure in response to macroeconomic conditions and firm-specific factors, with leverage from the previous year, company size, growth rate, and non-debt tax shields positively influencing SOA, while profitability and inflation exert negative effects. The estimated baseline SOA is 37.8%. Notably, firms with higher managerial ability exhibit a faster adjustment, increasing SOA to 60.3% (22.5% increase). Similarly, accounting conservatism significantly enhances SOA, raising it to 70.5% (32.7% increase) when measured using Tobin's Q (TQ) and 67.6% (29.8% increase) when measured using the market-to-book ratio (MTB). The combined influence of managerial ability and accounting conservatism further amplifies SOA to 93.1% (55.3% increase) using TQ and 77.4% (39.6% increase) using MTB, underscoring their complementary role in optimizing capital structure adjustments. These findings highlight the importance of integrating firm-specific capabilities and conservative financial policies to enhance corporate financial stability and strategic decision-making.

Key Words: Capital Structure Adjustment Speed, Accounting Conservatism, Managerial Ability

أثر القدرة الإدارية والتحفظ المحاسبي على ديناميكيات هيكل رأس المال: دراسة تطبيقية على الحالة المصرية.

الملخص

تهدف هذه الدراسة الي قياس أثر القدرة الإدارية والتحفظ المحاسبي على ديناميكيات هيكل رأس المال، مع التركيز على سرعة تعديل هيكل رأس المال (SOA) في الشركات المدرجة بالبورصة المصرية (EGX) خلال الفترة من ٢٠١٨ إلى ٢٠٢٢. تم استخدام بيانات تغطي مجموعة من الصناعات والفترات الزمنية، مع تطبيق تقنيات قياسية متنوعة لتحليل عينة من الشركات المدرجة. يهدف البحث إلى تحديد محددات سرعة تعديل هيكل رأس المال، وتقييم الأدوار التي تلعبها كل من القدرة الإدارية والتحفظ المحاسبي في تحسين القرارات المالية للشركات.

تشير النتائج إلى أن الشركات تعدل هيكل رأس المال استجابةً لكل من العوامل الاقتصادية الكلية والمتغيرات الخاصة بالشركات. فقد وُجد أن الرفع المالي للسنة السابقة، وحجم الشركة، ومعدل النمو، ودرع الضريبة غير المرتبط بالديون ترتبط إيجابياً بسرعة التعديل، في حين أن كلًا من الربحية والتضخم يرتبطان سلبياً بها. بلغ معدل سرعة التعديل الأساسي ٣٧.٨%. كما تبين أن الشركات ذات القدرة الإدارية الأعلى تحقق معدل تعديل أسرع بلغ ٦٠.٣% (زيادة قدرها ٢٢.٥%). كذلك أظهر التحفظ المحاسبي أثراً معززاً على سرعة التعديل، حيث ارتفع المعدل إلى ٧٠.٥% (زيادة قدرها ٣٢.٧%) عند القياس باستخدام **Tobin's Q**، وإلى ٦٧.٦% (زيادة قدرها ٢٩.٨%) عند القياس باستخدام نسبة القيمة السوقية إلى القيمة الدفترية (MTB). وعند الجمع بين القدرة الإدارية والتحفظ المحاسبي، ارتفع معدل سرعة التعديل إلى ٩٣.١% (زيادة قدرها ٥٥.٣%) باستخدام **TQ**، وإلى ٧٧.٤% (زيادة قدرها ٣٩.٦%) باستخدام **MTB**، مما يؤكد دورهما التكميلي في تحسين كفاءة تعديل هيكل رأس المال. تقدم هذه النتائج دلالات مهمة بشأن ضرورة دمج القدرات الإدارية مع السياسات المالية المتحفظة لتعزيز الاستقرار المالي للشركات ودعم قراراتها الاستراتيجية.

الكلمات المفتاحية :سرعة تعديل هيكل رأس المال؛ التحفظ المحاسبي؛ القدرة الإدارية.

1. Introduction

In the dynamic landscape of corporate finance, the capital structure of a firm stands as a critical determinant of its financial health and overall performance. Managers are tasked with the strategic decision-making process of optimizing the mix of debt and equity to maximize shareholder wealth while minimizing financial risks. The adjustment of capital structure, defined as the alteration in the proportion of debt and equity over time, is a complex phenomenon influenced by a myriad of factors. This research seeks to unravel the intricate interplay between managerial ability, accounting conservatism, and the pace at which firms adapt their capital structures. Managerial ability, often regarded as the competency of executives in navigating the challenges of decision-making, is hypothesized to be a pivotal factor in the capital structure adjustment process. Skilled managers are expected to possess a heightened acumen for assessing market conditions, evaluating financing alternatives, and executing timely adjustments to maintain the optimal balance between debt and equity. As such, investigating the impact of managerial ability on the speed of capital structure adjustment is essential for understanding how managerial expertise shapes the financial architecture of firms (Chen et al., 2023). Previous research has focused on factors influencing capital structure decisions, such as firm size, profitability, and industry characteristics. However, the impact of managerial ability on the speed of capital structure adjustment has been relatively understudied. This research aims to fill this gap by investigating the relationship between managerial ability and the pace at which firms adapt their capital structure.

Accounting conservatism, on the other hand, represents a crucial accounting principle that advocates prudence in financial reporting by recognizing losses earlier than gains. The conservative approach inherently affects financial statements, potentially influencing the perceived riskiness of a firm. As a component of financial reporting, accounting conservatism may play a significant role in shaping managerial perceptions and decisions regarding capital structure adjustments. By incorporating a conservative accounting framework, managers may exhibit a heightened sensitivity to adverse financial conditions, impacting the speed at which they respond to changes in the economic environment.

The intersection of managerial ability and accounting conservatism in the context of capital structure adjustment remains an underexplored area in the existing literature. This research aims to bridge this gap by empirically investigating the relationship between these two variables and their combined influence on the speed of capital structure adjustment. The findings of this study are anticipated to contribute not only to the academic understanding of corporate finance dynamics but also to provide practical insights for managers, policymakers, and investors seeking to comprehend the intricate mechanisms that drive capital structure decisions in today's rapidly evolving business environment.

2. Literature Review and Hypotheses Development

2.1 Theoretical background

Every business requires financial resources to conduct its operations and broaden its presence beyond the domestic market and create a worldwide presence; as a result, they need substantial resources to support significant investment projects for entry into new markets. Executing these substantial investment projects requires a sizeable amount of finance, which can be obtained either internally through equity issuance, externally through debt, or through a hybrid strategy that combines debt and equity (Lyubov & Heshmati, 2023).

The Modigliani-Miller theorem, developed in the 1950s, is a fundamental concept in the field of corporate finance. This theorem establishes the conditions under which the value of a firm is not affected by its capital structure. In its simplest form, the theorem states that, under certain assumptions, the total value of a firm is determined solely by its earning potential and the risk of its underlying assets, and not by the way it finances its operations. The Modigliani-Miller theorem is based on several key assumptions. It assumes that capital markets are frictionless, meaning there are no taxes, transaction costs, or other barriers to buying and selling securities. Moreover, the theory assumes that investors have access to all relevant information and can trade securities at fair market prices. Additionally, it proposes no agency costs which arise from conflicts of interest between shareholders and management. Under these assumptions, Modigliani and Miller proved that the capital structure of a firm (i.e., the mix of debt and equity used to finance its operations) does not affect its

overall value. In other words, whether a firm is financed entirely by equity, entirely by debt, or a combination of both, its total value remains constant.

However, in the real world, these assumptions are rarely met, and factors like taxes, bankruptcy costs, and agency problems can influence a firm's capital structure decisions. This is where the concept of capital structure adjustment speed comes into play. Capital structure adjustment speed refers to how quickly a firm adjusts its capital structure to changes in its financial situation. If a firm's actual capital structure deviates from its optimal capital structure (the structure that minimizes the cost of capital), the firm may adjust its mix of debt and equity over time. While the Modigliani-Miller theorem provides important insights into the theoretical relationship between capital structure and firm value, real-world factors and market imperfections introduce complexities that influence how firms adjust their capital structure over time. Capital structure adjustment speed is a concept that acknowledges the practical considerations and trade-offs that firms face when m (Modigliani & Miller, 1958; Aarland & Fidjeland, 2018).

On the other side, testing the static and dynamic trade-off theories has dominated the vast literature on capital structure since the groundbreaking work of Modigliani and Miller (1958). According to the static trade-off theory, there is an ideal capital structure that maximizes business value while weighing the costs of financial distress brought on by excessive debt levels against the tax benefits of debt financing (Kythreotis et al.; Dang et al., 2019; Thanh Nguyen et al., 2023).

Moreover, the seminal work of Myers (1984) introduced the pecking order theory, which is a concept in corporate finance that explains how firms choose their capital structure, which is the mix of debt and equity used to finance their operations and investments. The theory describes the way companies prioritize and choose their sources of financing to meet their capital requirements. Additionally it suggests that firms prefer internal financing, followed by debt, and then equity issuance due to information asymmetry. According to the pecking order theory, companies have a preferred hierarchy for obtaining funds to finance their operations and investments. This hierarchy is based on the availability and cost of various sources of capital, and it is primarily driven by the company's information asymmetry and adverse selection problems. These problems arise due to differences in information between managers and investors, leading to

uncertainty about the true value and prospects of the firm (Ghose 2017; Pan et al., 2023; Thanh Nguyen et al., 2023).

The pecking order theory suggests a specific hierarchy of financing preferences. The first choice for financing is using internally generated funds, such as retained earnings. This is because internal funds do not carry any information asymmetry or adverse selection issues, as they are derived from the company's operations. Then after, if internal funds are insufficient to meet the financing needs, companies prefer to use debt. Debt financing includes borrowing through loans or issuing bonds. Debt is often considered a cheaper source of capital than equity, and interest payments on debt are tax-deductible, which can provide a financial advantage. Equity financing is the least preferred option in the pecking order theory. Issuing new shares of stock dilutes ownership and may signal to investors that the company's stock is undervalued, leading to adverse selection problems. External equity financing also incurs flotation costs, such as underwriting fees and administrative expenses (Shyam-Sunder & Myers, 1999). In summary, the pecking order theory provides insight into how companies approach their capital structure decisions. It highlights the impact of information asymmetry and adverse selection on financing choices and suggests that companies prioritize internal funds and debt over external equity to maintain financial stability and minimize costs (Frank & Goyal, 2009).

In contrast, Baker and Wurgler (2002) proposed the market timing theory, arguing how firms might alter their capital structure based on perceived market conditions, effectively using market timing to optimize their financing choices. The traditional Modigliani-Miller theorem posits that a firm's capital structure—whether it's financed through debt or equity—does not affect its value in a world without taxes or other market imperfections. However, Baker and Wurgler's research brought to the forefront the idea that firms do take into account market conditions when making financing decisions, thereby questioning the universality of Modigliani-Miller's irrelevance proposition. According to market timing theory, firms time their issuance of equity and debt based on their assessment of market conditions. If they believe their stock is overvalued and debt is relatively cheap, they may issue more equity. Conversely, if they perceive their stock as undervalued, they may issue more debt. This approach allows firms to exploit perceived mispricing in their securities to optimize their cost of capital and increase their market value(Lyubov & Heshmati, 2023).

Jensen and Meckling (1976) established the agency theory, highlighting the potential agency problems arising from the separation of ownership and control. Large shareholders with substantial ownership stakes may have conflicting interests with minority shareholders and could prioritize short-term gains over long-term value maximization. This misalignment of interests may impact the firm's capital structure adjustment decisions.

Based on that, and what makes it extremely important, the study of Graham and Harvey (2001) found that most firms adjust their capital structure slowly over time rather than making rapid adjustments. This observation contrasts with the predictions of several theoretical models and emphasizes the significance of examining the factors affecting the adjustment speed.

2.2 The speed of capital structure adjustment

The way a company is financed, known as its capital structure, plays a crucial role in determining its overall financial risk, cost of capital, and ultimately its value. The importance of capital structure can be emphasized in the growth of an organization, influencing long-term investment decisions and the identification of suitable financing sources. It is essential for firm stakeholders to consider the factors that determine the optimal capital structure as being under-leveraged or over-leveraged can negatively impact the value of their investments (Thanh Nguyen et al., 2023). Several studies have explored the determinants of capital structure, including the influence of ownership structure. While previous literature has examined the impact of ownership concentration on firm performance and corporate governance, its impact on the speed of capital structure adjustment remains largely unexplored.

The capital structure of a firm represents the mix of debt and equity used to finance its operations. As the ratio of liabilities to assets, capital structure has an optimal value, or target capital structure, which enables the firm to increase its value, growth, and continuing operation. Achieving an optimal capital structure is crucial for maximizing shareholder value and minimizing the cost of capital. One critical aspect of capital structure dynamics is the speed at which firms adjust their capital structure towards the target level (Loof, 2004; Drobetz & Wanzenried, 2006; Touil & Mamoghli, 2020; Pan et al., 2023; Thanh Nguyen et al., 2023).

Capital structure adjustment refers to the process of altering the proportion of debt and equity in a company's financing mix. The speed at which firms adjust their capital structure is crucial as it affects their cost of capital, financial flexibility, and risk profile. A quick adjustment allows firms to take advantage of favorable market conditions, while a slow adjustment may result in missed opportunities or increased financial distress (West et al., 2023).

Concerning the determinants of capital structure speed of adjustment, the study of Frank and Goyal (2009) demonstrated that the speed of capital structure adjustment is influenced by macroeconomic conditions, such as interest rates, inflation, and GDP growth. The study found that firms adjust more rapidly during periods of economic stability and low volatility. Chirinko and Singha (2000) investigated the effect of firm size on capital structure adjustment speed and discovered that smaller firms tend to adjust their capital structure more quickly compared to larger firms, as they are more sensitive to financial distress costs. Moreover, Korajczyk and Levy (2003) analyzed the impact of industry factors on capital structure adjustment speed and revealed that firms in industries with stable cash flows and lower growth rates adjust their capital structure more rapidly than those in volatile or high-growth industries.

Moreover, according to Thanh Nguyen et al. (2023); the factors that determine the variability in the rate of capital structure adjustment (speed of adjustment; SOA) are divided into six categories, including firm-specific attributes, managerial incentives and financial reporting, corporate governance, informal institutions, financial market characteristics, and economy-wide characteristics.

Essentially, according to Thanh Nguyen et al. (2023); there have been robust market conditions on international financial markets along with low interest rates in most economies since the global financial crisis. These conditions are consistent with a lower cost environment and more flexibility for businesses when it comes to issuing debt and equity capital. As such, a review of the adjustment of the speed of capital structure decision-making within this time frame would offer an intriguing comparison to its results in the past. Additionally, Corporate capital structures are affected by several factors, including opportunities for raising money, developments in blockchain and digital currency technologies, the creation of new debt

securities, the expansion of the size and liquidity of corporate debt markets, and the increasing number of companies repurchasing shares.

The past twenty years have seen a rise in research about the heterogeneity in the adjustment speed of capital structure, which has helped to address this difficulty and provide a better knowledge of how a firm's capital structure changes over time. Accordingly, there are many benefits of heterogeneity in the adjustment speed of capital structure. Improved financial flexibility by swift adjustments to the capital structure allow companies to seize opportunities and respond to market changes promptly including access to new funding sources and reduced reliance on costly debt. Moreover, heterogeneity in the adjustment speed of capital structure result in enhanced risk management because managers with the ability to quickly adjust the capital structure can better mitigate risks associated with excessive debt or inadequate equity through optimal debt-to-equity ratio and reduced financial distress. Additionally, the increased shareholder value is of the benefits of heterogeneity in the adjustment speed of capital structure. Efficient capital structure adjustments positively impact a company's valuation and attractiveness to investors through higher stock prices and increased dividend payments (Pan et al., 2023).

2.3 Managerial Ability and the Speed of Capital Structure Adjustment

2.3.1 Managerial Ability and Capital Structure Theory:

Modigliani and Miller's (1958) seminal irrelevance proposition proposed that capital structure decisions do not affect firm value under certain assumptions, such as perfect capital markets and no taxes. However, subsequent research has challenged this proposition by considering real-world complexities and the role of managerial ability. Myers (1984) suggested that managers' information asymmetry, combined with varying managerial skills, can lead to deviations from the Modigliani-Miller theory. Consequently, managerial ability may affect the speed at which firms adjust their capital structure.

Earlier research has indicated that among attributes like skills, credibility, and style, managerial ability stands out as the primary analytical cognitive trait of managers. This attribute holds greater significance than others and exerts a substantial influence on economic results. Its significance holds paramount importance for both theoretical frameworks and practical

applications, as highlighted in works by previous researches (Demerjian et al., 2012; Yuan et al., 2019; Cho et al., 2021; and Anggraini & Sholihin, 2023). Bertrand and Schoar (2003) suggest that divergent managerial characteristics lead to varied performance, actions, and strategic decisions, underscoring the heightened attention paid to managerial ability by scholars and researchers (Park & Song, 2019).

Managerial ability refers to the skill, knowledge, and expertise possessed by managers in making effective decisions for the organization. It encompasses various aspects such as strategic planning, resource allocation, risk management, and financial decision-making. A manager's ability to make optimal choices can significantly influence a firm's financial health and competitiveness in the market (Hermalin & Weisbach, 2017; Baiket al., 2018).

Moreover, managerial ability plays a crucial role in the success and growth of companies. It encompasses various skills and competencies that enable managers to effectively lead and make decisions. Effective managers possess a diverse range of skills, including strategic thinking, communication, problem-solving, and leadership (Park & Song, 2019). They are responsible for setting goals, allocating resources, and guiding teams towards achieving objectives. A manager's ability to navigate challenges, adapt to changing circumstances, and employ this information to more effectively communicate with investors and make informed decisions (Baiket al., 2018). These skills are essential for effective management and can greatly impact a company's performance and are vital for organizational success (Bertrand & Schoar, 2003). Additionally, managers with high managerial ability can efficiently analyze market conditions, assess the company's financial needs, and make timely adjustments to the capital structure (Yuan et al. 2019). Regarding (Schoar et al., 2023), a substantial portion of the variance in actual outcomes within companies, encompassing decisions related to investments, organizational arrangements, and capital allocation, can be linked to systematic distinctions in management approaches among top executives. Extensive research in the field of corporate finance has revealed that this divergence in management philosophies is associated with both business performance and the professional backgrounds of these executives. So as a result, the heterogeneity in management abilities documented by the prior literature might translate into differences in firms' decisions regarding capital

structure speed of adjustment (Bertrand & Schoar, 2003; Hermalin & Weisbach, 2017; Baiket al., 2018; Park & Song, 2019; Cho et al., 2021).

Managerial proficiency can be influenced by various factors. One of these factors is their financial expertise, which requires a solid understanding of financial concepts like debt ratios, cost of capital, and risk management techniques. This knowledge can be developed through ongoing education and training in finance and by consistently assessing financial performance indicators (Banerjee & Guha Deb, 2023). Furthermore, analytical skills are essential, that managers must possess the ability to examine and interpret financial data effectively. This involves utilizing advanced financial analysis tools and software and collaborating with financial experts and consultants to make well-informed financial decisions. Additionally, communication and collaboration skills play a crucial role. Managers need to engage with stakeholders, such as investors, lenders, and board members, by regularly updating them on capital structure decisions and seeking input and feedback from relevant parties (Anggraini & Sholihin, 2023).

While managerial ability is an essential factor, several other variables influence the speed of capital structure adjustments. Understanding these factors is crucial in comprehending the overall dynamics of capital structure decision-making. Firms experiencing high profitability and strong financial performance are more likely to adjust their capital structure quickly. Positive financial indicators provide a favorable environment for capital structure adjustments, as firms have better access to external funding sources. Market conditions, including interest rates, economic stability, and industry-specific factors, significantly impact the speed of capital structure adjustments. Firms operating in rapidly changing environments may need to adjust their capital structure swiftly to remain competitive (Morais & Ramalho, 2022; West et al., 2023).

Numerous research investigations have revealed various aspects that impact a manager's ability to promptly modify the capital structure. Market conditions where volatility and uncertainty in the market can impact the speed at which adjustments are made. Also, financial expertise that is managers with strong financial knowledge and skills are more likely to expedite capital structure adjustments. Additionally, organizational structure for which the complexity and bureaucracy within a company can hinder or facilitate quick decision-making. According to Yung & Chen (2018),

managers with superior capabilities are inclined to take on more risks and invest more in capital expenditures, while also dedicating a significantly greater portion of resources to research and development endeavors. Consequently, high-ability managers exhibit a heightened commitment to both the company's and environmental goals and future performance, resulting in higher earnings quality compared to their low-ability counterparts (Demerjian et al., 2013). Furthermore, (Park & Song, 2019) highlights that high-ability managers are more likely to distribute higher dividends due to their strong abilities which enables a deeper understanding of their companies and the industries they operate in, enabling them to effectively integrate information to produce accurate forecasts, ultimately leading to superior earnings quality, signaling an improvement in the firm's overall value. Managerial ability, as a theoretical construct, is often associated with the notion of managerial discretion, suggesting that managers' skill and judgment significantly impact financial reporting choices (Watts, 2003). Moreover, the study of Bertrand and Schoar (2003) suggests that the special features and actions of managers have a significant influence on company's financial decisions. Consequently, they conclude that individuals in senior management play a significant role in influencing the firm's investment, financial and organizational practices. Researchers have differing opinions on how to maximize shareholder benefit. Some argue that companies should strictly adhere to a specific capital structure, while others propose that shareholders would benefit more if management prioritized improving operational performance rather than being overly concerned with capital structure (Cho et al., 2021).

On the other side, the relationship between managerial ability and capital structure adjustment can be explained through behavioral aspects. Firms led by more skilled and experienced managers are likely to make better-informed decisions, leading to efficient capital structure adjustments. Skilled managers may have a better understanding of the firm's financing needs, optimal debt levels, and the impact of leverage on firm performance (Hermalin & Weisbach, 2017; Flayyih & Khiari, 2023;).

According to Anggraini & Sholihin (2023), Agency theory suggests that managers may act in their self-interest, which can lead to suboptimal capital structure decisions. However, managerial ability may help mitigate agency conflicts and reduce the agency costs associated with suboptimal financing choices (Flayyih & Khiari, 2023). Highly competent managers are better

equipped to align their interests with those of the shareholders, leading to more efficient capital structure adjustments. Consequently, managers play a pivotal role in determining a company's operational decisions, with their ability being a crucial factor influencing the accuracy of these decisions. Among these decisions, the adjustment of capital structure toward the optimal level holds significance. Building upon prior research findings mentioned earlier, the research aims to investigate how managerial competence impacts a company's speed of capital structure adjustment.

Given that skilled managers tend to affect one or more of the six factors that determine the variability in the rate of capital structure speed of adjustment, the study anticipate that managers with superior abilities will be inclined to control important decisions that can affect the speed of adjustment towards the optimal capital structure. Consequently, we propose the following hypothesis:

H1: Managerial ability has no statistically significant impact on the speed of adjustment towards the optimal capital structure.

2.3.2 Accounting Conservatism and Capital Structure Dynamics

Accounting conservatism has attracted considerable attention from scholars, practitioners, and standard-setting bodies, warranting a comprehensive examination of its nature and relevance and has a rich history that dates to the earliest days of accounting (Zhong & Li, 2017).

The definition of conservatism is the requirement of greater verifiability for the acknowledgment of benefits than for losses. The classic saying, "anticipate no profit but anticipate all losses," is the extreme version of this statement (Watts, 2003b). Accounting conservatism entails applying a higher level of scrutiny to the recognition of gains as opposed to losses (Watts, 2003b; Alia & AbuSarees, 2023). It was considered as the cornerstone of financial reporting, emphasizing the prudence and caution in recognizing assets and income while readily recognizing liabilities and expenses. It serves as a foundational concept in accounting that influences how financial information is reported and disclosed (Haider et al. 2021; Glover & Xue, 2023). This principle is driven by the notion that recognizing bad news promptly is more beneficial for stakeholders than recognizing good news, thereby enhancing the credibility of financial statements. It implies that when faced with uncertainty, accountants should lean towards

recognizing potential losses (i.e., being conservative) rather than recognizing potential gains. The objective of conservatism is to provide a more realistic representation of a company's financial position, particularly by avoiding overstatement of assets and profits. The application of accounting conservatism is influenced by managerial discretion, which is central to the decision-making process related to financial reporting (Ball & Shivakumar, 2005).

Accounting conservatism is a concept in financial accounting that suggests that when there are uncertainties or ambiguities in financial reporting, it is better to err on the side of caution and recognize losses or liabilities sooner rather than later. This conservative approach helps to provide a more reliable and less optimistic view of a company's financial position. There are two primary types of accounting conservatism: conditional conservatism and unconditional conservatism. Conditional conservatism, also known as "prudence," is a type of conservatism that is applied when there is an uncertainty about recognizing gains or assets. It suggests that gains and assets should only be recognized when they are realized (i.e., virtually certain), but losses and liabilities should be recognized as soon as they are probable. Conditional conservatism is influenced by the principle of "lower of cost or market," which is commonly applied in valuing assets such as inventory and investments, moreover, book values are recorded under sufficiently unfavourable circumstances but are not recorded in favorable circumstances according to conditional conservatism, also known as news-dependent or ex post conservatism. (Ball & Watts, 1972; Watts & Zimmerman, 1986; Zhong & Li, 2017).

Unconditional conservatism, also referred to as "strict conservatism," implies that financial reporting should always take the most cautious and pessimistic approach, even when recognizing gains or assets. This approach leads to a higher degree of prudence, as it requires that gains should not be recognized until they are realized and losses should be recognized as soon as there is any indication of their potential occurrence. Unconditional conservatism, also known as news-independent or ex ante conservatism, refers to the notion that certain aspects of the accounting process that are decided upon at the outset of assets and liabilities result in the expected unrecorded goodwill (Zhong & Li, 2017).

It's important to note that both conditional and unconditional conservatism have their advantages and disadvantages. Conditional conservatism can lead to more accurate financial statements when it comes to assets and gains, but it may not provide the same level of caution for potential losses. Unconditional conservatism, on the other hand, can offer a more cautious approach but may result in understating the company's financial health in certain situations. The application of these types of conservatism depends on the specific circumstances, regulations, and the judgment of the accountants and auditors involved in the financial reporting process (Zhong & Li, 2017; Alia & AbuSarees, 2023).

Utilizing a conservative approach may lead to the undervaluation of an organization's prospective worth. Moreover, the concept of accounting conservatism suggests a limitation on excessive dividend distributions to shareholders, along with more stringent controls on dividend policies. Some scholars have raised concerns about the limitations of this one-sided approach to conservatism, contending that stakeholders are equally concerned with obtaining timely information about profits as they are with timely information about losses (Watts, 2003a; Lara et al., 2007; Lafond & Roychowdhury, 2008; Haider et al. 2021).

According to Watts (2003b), three types of measurements are used by researchers to evaluate conservatism: relation measures between earnings and stock returns, earnings and accrual measures, and net asset measures. All indicators depend on how reported accounting numbers—specifically, net assets, earnings, and accruals—are affected by conservatism's unequal recognition of gains and losses.

Accounting conservatism has practical implications for the preparation of financial statements. It often results in lower reported earnings, more prudent asset valuation, and timely recognition of losses, especially in situations involving uncertain future cash flows. This prudence can affect various financial ratios, such as the debt-to-equity ratio, making them more conservative. The use of conservatism can also influence the decision-making process for investors, creditors, and other stakeholders. Accounting conservatism, for instance, might limit managers' aspirations of making wealth and reduce underinvestment and wasteful overinvestment, so increasing investment efficiency (Balakrishnan et al., 2016; Shen & Ruan, 2022; Alia & AbuSarees, 2023).

Additionally, accounting conservatism is a crucial factor in the context of corporate governance, as supported by various studies. Firstly, it has been established that accounting conservatism is positively correlated with the quality of corporate governance. This association can be attributed to its ability to enhance investment efficiency by curbing both underinvestment and excessive, unproductive overinvestment. Furthermore, accounting conservatism plays a role in constraining earnings management, which is a widespread issue in many firms and has connections to governance practices (García Lara et al., 2009).

From the market perspective, accounting conservatism plays a vital role in reducing information asymmetry and facilitating the provision of high-quality information about a company. Consequently, capital providers, including both debt and equity stakeholders, benefit from access to reliable and valuable information, enabling them to effectively monitor the firm. This, in turn, leads to improved market reactions and a reduction in the cost of debt and equity capital. Accounting conservatism also contributes to the promotion of corporate financing by mitigating the manipulation of financial information (García Lara et al., Balakrishnan et al., 2016; Shen & Ruan, 2022).

Effectively reducing information asymmetry and managing conflicts of interest are two benefits of using conservative accounting as a governance tool. The degree of information asymmetry is determined by disclosure and capital structure and an increased disclosure provides investors with more pertinent information about the company, thereby mitigating the information asymmetry between managers and investors (Alia & AbuSarees, 2023). Debate exists regarding the benefits and drawbacks of accounting conservatism. Despite its advantages, accounting conservatism has faced criticism. Critics argue that it can lead to understatement of assets and earnings, limiting a company's access to capital. They also contend that it can be manipulated to manage earnings in a different way, sometimes leading to income smoothing or earnings management. Moreover, there is debate over the subjective nature of conservatism and its impact on comparability (Zhong & Li, 2017).

Accounting conservatism operates under several key principles, including the principle of lower-of-cost-or-market, the prudence concept, and the requirement to be cautious in recognizing revenues. The significance of

accounting conservatism lies in its ability to improve transparency and reliability in financial reporting, mitigate aggressive earnings management, provide a buffer against economic downturns, and enhance the credibility of financial statements. The principles of accounting conservatism are essential guidelines in financial accounting aimed at ensuring that financial statements accurately reflect a company's financial position and performance (Mora & Walker, 2015). These principles encourage caution and prudence in reporting financial information. Recognition of Losses Sooner Than Gains; that is under the conservatism principle, companies are encouraged to recognize losses or liabilities as soon as they are probable but to only recognize gains when they are realized. This ensures that potential risks and uncertainties are adequately accounted for. This concept is aligned with the principle of prudence and is discussed in the International Financial Reporting Standards (IFRS) framework (IASB, 2018).

Additionally, the conservative practice leads to a more cautious approach in financial reporting, which can affect how a company's financial position is portrayed. Conservative accounting policies may lead to slower adjustments in the capital structure due to a more reserved approach to risk-taking and leverage. (Watts, 2003a; Lafond & Roychowdhury, 2008; Zhong & Li , 2017). Considering the above-discussed theoretical arguments and previous studies' results, the following hypothesis was formulated:

H2: There is no statistically significant impact of accounting conservatism on the speed of capital structure adjustment.

2.4 Managerial Ability, Accounting Conservatism, and capital structure speed of adjustment.

Existing research has indicated that there is a strong relationship between managerial ability and accounting conservatism. Managers with higher abilities are more likely to exercise judgment that promotes prudence and conservatism in financial reporting (Roychowdhury, 2006). Conversely, managers with lower abilities may engage in opportunistic reporting practices that downplay losses and liabilities. The quality of financial statements, as measured by the extent of conservatism, is therefore influenced by managerial ability (Karamanou & Vafeas, 2005).

The relationship among these elements is intricate. A highly capable management team might be more adept at identifying optimal capital

structure adjustments, using their skills to navigate financial markets, negotiate terms, and make strategic decisions. However, the impact of managerial ability could be tempered by accounting conservatism. Conservative accounting practices might lead to a slower adjustment in the capital structure as the management team is more inclined to be cautious and hesitant to take on additional debt or risk, even if it might be financially beneficial.
Conversely, a less conservative accounting approach might result in quicker adjustments to the capital structure, potentially taking advantage of opportunities for leveraging or optimizing financing, but it could also lead to higher risks if not managed prudently.

Ultimately, the relationship between managerial ability, accounting conservatism, and capital structure adjustment is dynamic and influenced by various internal and external factors. A balance between managerial acumen, prudent accounting practices, and a strategic approach to capital structure adjustment is crucial for a company's financial health and long-term sustainability. Consequently, in order for the research to investigate this relationship, the following hypothesis was formulated;

H3: There is no statistically significant impact of managerial ability and accounting conservatism on the speed of capital structure adjustment.

3. Research Importance:

Capital structure decisions play a pivotal role in shaping a firm's financial health, risk profile, and overall performance. Understanding the factors influencing the pace of capital structure adjustment is crucial for both scholars and practitioners seeking to optimize financial decision-making processes. By understanding the impact of managerial ability on capital structure adjustment speed, firms can strive to enhance their management capabilities and improve their financial decision-making processes. This will enable them to optimize their capital structure and enhance their overall financial performance in today's dynamic business environment.

Managerial ability is a critical factor in determining a company's success. A manager's skill set, including their ability to adjust the capital structure promptly, can significantly impact financial performance, risk management, and shareholder value. By developing and nurturing managerial ability, companies can enhance their competitive advantage and adapt effectively to

dynamic market conditions. The implications of our findings extend to policymakers, financial analysts, and corporate decision-makers. Recognizing the impact of managerial ability and accounting conservatism on capital structure dynamics can inform better financial planning and risk management practices. Additionally, our research contributes to the ongoing discourse on corporate governance and financial reporting quality, emphasizing their role in shaping the responsiveness of firms to changing financial landscapes.

In conclusion, this study offers valuable insights into the intricate interplay between managerial attributes, accounting practices, and the speed of capital structure adjustment. The multifaceted nature of these relationships underscores the importance of considering both managerial and accounting factors when assessing and influencing corporate financial decision-making processes. In summary, market conditions characterized by volatility and uncertainty, coupled with the financial expertise of managers and the organizational structure of a company, collectively influence the speed at which adjustments to the capital structure are made.

4. Empirical Research Methodology

The methodology of the applied study presents the study population and sample, study models, study variables and their measurement methods, as well as data collection sources.

4.1 Population and Sample

The study population consists of the listed joint-stock companies in the Egyptian Stock Exchange from the sectors of (services and industrial products, automotive, healthcare and pharmaceuticals, real estate, and basic materials) during the period from 2018 to 2021, totaling (75) companies according to the data disclosed by the Egyptian Stock Exchange in February 2022 (Egyptian Stock Exchange, 2022). The study sample was selected based on the following criteria:

1. The companies' stocks must have continued to be listed and traded in the Egyptian Stock Exchange during the study period, to ensure the availability of market data for the study variables.

2. The availability of financial and non-financial reports for the companies from 2018 to 2021.
3. Companies that prepare their financial reports as of 31/12 to facilitate the comparison of the study results.
4. Companies that present their financial reports in Egyptian pounds.

By applying the above criteria, the sample size consisted of (42) non-financial companies, divided across (4) sectors, representing (56%) of the total companies in the population. Therefore, the number of observations was (168). Table No. (1) shows the study population and sample according to the sector classification:

Table 1: Study Population and Sample According to Sector Classification

No.	Sector Name	Listed Companies	Excluded Companies	Sample Companies	Contribution Percentage (%)
1	Services and Industrial Products, Automotive	7	3	4	9.52
2	Healthcare and Pharmaceuticals	18	12	6	14.29
3	Real Estate	34	12	22	52.38
4	Basic Materials	16	6	10	23.81
	Total	75	33	42	100%

Source: (Egyptian Stock Exchange, 2022)

4.2 Research Models

The study relied on the partial adjustment model to estimate the speed of adjustment to the optimal capital structure (Ezeani, et al., 2022a & 2022b), which assumes that:
Each company has an optimal leverage (Lev^*_{It}) related to several variables (X_{jit}), which stem from macroeconomic factors or unique characteristics of each company. Previous studies differed in identifying these variables, but the most common ones are as follows: (company size, company age, growth rate, tangibility, non-debt tax shield, profitability, and inflation rate). Based on this, the model is represented as:

$$\textbf{(A)} \quad \mathbf{Lev^*_{It} = \alpha_1\ SIZE + \alpha_2\ Age + \alpha_3\ GR + \alpha_4\ TANG + \alpha_5\ NDTS + \alpha_6\ PROF + \alpha_7\ INF + \varepsilon_{it}}$$

These companies often deviate from the optimal capital structure, and this deviation is measured by the difference between the optimal leverage and the actual leverage (Lev^*_{it} - *$Levi_{t-1}$). Companies bear the costs of being distant from the target capital structure, known as adjustment costs, and thus have an incentive to move closer to their goal again. However, this adjustment is also a function of adjustment costs. Therefore, they partially adjust their leverage (correct the deviation), and the extent of this adjustment is measured by the change in leverage from one year to the next (Lev_{it} - $Levi_{t-1}$). Based on this, the speed of adjustment to the optimal capital structure (λ_{it}) is estimated by the extent to which the partial adjustment of leverage each year (Lev_{it} - $Levi_{t-1}$) compensates for the total deviation from the optimal leverage (Lev^*_{it} - $Levi_{t-1}$)* (El-Sayed et al., 2023).

Thus:

$$\textbf{(B)} \quad \mathbf{\lambda_{it} = [(Lev_{it} - Levi_{t-1}) / (Lev^*_{it} - Levi_{t-1})]}$$

The equation (B) can be rewritten as follows:

$$\textbf{(C)} \quad \mathbf{Lev_{it} - Levi_{t-1} = \lambda_{it}\ (Lev^*_{it} - Levi_{t-1})}$$

$$\textbf{(D)} \quad \mathbf{Lev_{it} = Lev_{it-1} + \lambda_{it}\ (Lev^*_{it} - Lev_{it-1})}$$

$$\textbf{(E)} \quad \mathbf{Lev_{it} = Levi_{t-1} + \lambda_{it}\ Lev^*_{it} - \lambda_{it}\ Lev_{it-1}}$$

$$\textbf{(F)} \quad \mathbf{Lev_{it} = (1 - \lambda_{it})\ Lev_{it-1} + \lambda_{it}\ Lev^*_{it}}$$

From equations (A) and (F), the following equation can be derived:

$$\textbf{(1)}\ \mathbf{Lev_{it} = (1 - \lambda_{it})\ Lev_{it-1} + \lambda_{it}\ \alpha_1\ SIZE + \lambda_{it}\ \alpha_2\ Age + \lambda_{it}\ \alpha_3\ GR + \lambda_{it}\ \alpha_4\ TANG + \lambda_{it}\ \alpha_5\ NDTS + \lambda_{it}\ \alpha_6\ PROF + \lambda_{it}\ \alpha_7\ INF + \lambda_{it}\ \varepsilon_{it}}$$

Accordingly, the speed of capital structure adjustment (λ) is estimated in light of factors related to company characteristics and macroeconomic conditions that affect the level of leverage, using the model equation (1),

which equals [(1 - Coef) Lev_{t-1}] (El-Sayed et al., 2023). To determine the impact of the independent variables of the study (Managerial ability and accounting conservatism) on capital structure adjustment:

- The impact of managerial ability on the speed of capital structure adjustment was evaluated by reapplying model (1) to include independent variables related to (firm characteristics, macroeconomic conditions, and managerial ability), and then re-estimating the adjustment speed based on the new model (2). Consequently, the impact is measured by the difference (increase or decrease) in the adjustment speed according to the current model compared to the one estimated by model (1).

$$\textbf{(2)}\ Lev_{it} = (1 - \lambda_{it})\, Lev_{it-1} + \lambda_{it}\,\alpha_1\, SIZE + \lambda_{it}\,\alpha_2\, Age + \lambda_{it}\,\alpha_3\, GR + \lambda_{it}\,\alpha_4\, TANG + \lambda_{it}\,\alpha_5\, NDTS + \lambda_{it}\,\alpha_6\, PROF + \lambda_{it}\,\alpha_7\, INF + \lambda_{it}\,\alpha_8\, MA + \lambda_{it}\,\varepsilon_{it}$$

- The impact of accounting conservatism on the speed of adjustment to the optimal capital structure was evaluated by reapplying model (1) to include independent variables related to (firm characteristics, macroeconomic conditions, and accounting conservatism), and then re-estimating the adjustment speed based on the new model (3 and 4). This effect is measured by the increase or decrease in the adjustment speed according to this model compared to the one estimated by model (1).

$$\textbf{(3)}\ Lev_{it} = (1 - \lambda_{it})\, Lev_{it-1} + \lambda_{it}\,\alpha_1\, SIZE + \lambda_{it}\,\alpha_2\, Age + \lambda_{it}\,\alpha_3\, GR + \lambda_{it}\,\alpha_4\, TANG + \lambda_{it}\,\alpha_5\, NDTS + \lambda_{it}\,\alpha_6\, PROF + \lambda_{it}\,\alpha_7\, INF + \lambda_{it}\,\alpha_8\, TQ + \lambda_{it}\,\varepsilon_{it}$$

$$\textbf{(4)}\ Lev_{it} = (1 - \lambda_{it})\, Lev_{it-1} + \lambda_{it}\,\alpha_1\, SIZE + \lambda_{it}\,\alpha_2\, Age + \lambda_{it}\,\alpha_3\, GR + \lambda_{it}\,\alpha_4\, TANG + \lambda_{it}\,\alpha_5\, NDTS + \lambda_{it}\,\alpha_6\, PROF + \lambda_{it}\,\alpha_7\, INF + \lambda_{it}\,\alpha_8\, MTB + \lambda_{it}\,\varepsilon_{it}$$

- The combined impact of managerial ability and accounting conservatism on the speed of adjustment to the optimal capital structure was evaluated by reapplying model (1) to include independent variables related to (company characteristics, macroeconomic conditions, managerial ability, and accounting conservatism), and then re-estimating the adjustment speed based on

the new model (5 and 6). Consequently, the effect is measured by the increase or decrease in the adjustment speed according to the current model compared to the one estimated by model (1).

$$(5)\ Lev_{it} = (1 - \lambda_{it})\ Lev_{it-1} + \lambda_{it}\ \alpha_1\ SIZE + \lambda_{it}\ \alpha_2\ Age + \lambda_{it}\ \alpha_3\ GR + \lambda_{it}\ \alpha_4\ TANG + \lambda_{it}\ \alpha_5\ NDTS + \lambda_{it}\ \alpha_6\ PROF + \lambda_{it}\ \alpha_7\ INF + \lambda_{it}\ \alpha_8\ MA + + \lambda_{it}\ \alpha_9\ TQ + \lambda_{it}\ \varepsilon_{it}$$

$$(6)\ Lev_{it} = (1 - \lambda_{it})\ Lev_{it-1} + \lambda_{it}\ \alpha_1\ SIZE + \lambda_{it}\ \alpha_2\ Age + \lambda_{it}\ \alpha_3\ GR + \lambda_{it}\ \alpha_4\ TANG + \lambda_{it}\ \alpha_5\ NDTS + \lambda_{it}\ \alpha_6\ PROF + \lambda_{it}\ \alpha_7\ INF + \lambda_{it}\ \alpha_8\ MA + + \lambda_{it}\ \alpha_9\ MTB + \lambda_{it}\ \varepsilon_{it}$$

4.3 Variables and Measurement Methods

Table No. (2) illustrates the measurement methods for the study variables as follows:

Table No 2: Measurement Methods for Study Variables

Symbol	Variable	Measurement Method	Reference
Dependent Variable			
λ	**Speed of Adjustment to Optimal Capital Structure**	**[(1 - Coef) Lev_{t-1}] in the light of each model**	**(Ezeani, et al., 2022a & 2022b)**
Independent Variables			
MA	**Board Size**	**Number of board members**	
TQ	**Tobin's Q**	**Market Value of Assets / Replacement Cost of Assets**	
MTB	**Market to Book Value**	**Market Value of Equity/Book Value of Equity**	
Lev	**Leverage**	**Total liabilities / Total assets**	**(Ezeani, et al., 2022a & 2022b)**
SIZE	**Firm Size**	**Natural logarithm of total assets**	
Age	**Firm Age**	**Natural logarithm of the number of years since**	

Symbol	Variable	Measurement Method	Reference
		establishment	
GR	Firm Growth Rate	(Current year total assets - Previous year total assets) / Previous year total assets	
TANG	Tangibility	Fixed assets / Total assets	
NDTS	Non-Debt Tax Shield	Depreciation / Total assets	
PROF	Return on Assets	Net income / Total assets	
INF	Inflation Rate	Annual inflation rate	

4.4 Data Collection Sources

The research relied on obtaining the necessary data to test its hypotheses from the financial and non-financial data of the companies under study, which are disclosed on the Egyptian Stock Exchange website and the Mubasher website. This includes annual financial reports, as well as governance reports, board reports, and disclosure report forms. Additionally, data on GDP and inflation rate were obtained from the World Bank database.

4.5 Descriptive statistics

Table 3 demonstrates the descriptive statistics and reports the summary statistics of dependent and independent variables. The presented table reports descriptive statistics for firm characteristics, financial performance measures, and managerial ability. These variables are central to understanding the impact of managerial ability (MA) and accounting conservatism on the speed of capital structure adjustment in Egyptian firms. Firm Characteristics variables include Leverage (LEV), Firm Size (SIZE), Firm Age (Age), Growth (Growth), Tangibility (Tangibility), and Non-Debt Tax Shields (NDTS)

On the other side, Firm Performance and Managerial Ability variables include Return on Assets (ROA), Inflation, Managerial Ability (MA), Market-to-Book Ratio (MTB), and Tobin's Q (TQ). The descriptive statistics table provides a comprehensive overview of the sample's key continuous variables. The substantial variability in firm characteristics such

as leverage, size, profitability, and managerial ability highlights the heterogeneity of the firms included in this study. These variations are essential for understanding how accounting conservatism and managerial ability influence the speed of adjustment towards the optimal capital structure. The results suggest that firm-specific factors, such as firm size, profitability, and growth, as well as managerial ability, are likely to play significant roles in shaping capital structure dynamics in Egyptian firms.

Table 3: Descriptive statistics of research variables

Panel A: Continuous Variables					
Variables	**OBS**	**MIN**	**MAX**	**MEAN**	**Std Dev.**
LEV	240	.009	3.177	.489	.308
SIZE	240	17.227	26.199	20.982	2.118
Age	240	2.079	4.736	3.4	.503
Growth	240	-.915	8.948	.111	.617
Tangibility	240	0	.56	.23	.345
NDTS	240	0	.152	.015	.02
ROA	240	-1.316	.253	.028	.119
Inflation	240	5.06	14.4	8.595	3.752
MA	240	-1.581	4.39	.011	.794
MTB	240	-24.34	85.54	1.498	6.49
TQ	240	.113	40.503	1.418	2.884

4.5.1 The normal distribution for continuous variables

For testing whether the research variables follow the normal distribution; *Shapiro-Wilk test* was used to determine if the distribution of the research variables complied with the normal distribution or not. Depending on the significance level, the distribution will consider a non-significant departure from the normal distribution if the p-value is more than 0.05, i.e., non-significant *(Field, 2009; Ali & Bhaskar, 2016).* This can be illustrated by the following table:

Table 4: Test of normality

Shapiro-Wilk Test					
Variable	***Obs***	***W***	***V***	***Z***	***Prob>z***
LEV	240	0.831	29.563	7.863	0.000
SIZE	240	0.958	7.316	4.621	0.000
Age	240	0.988	2.121	1.746	0.040
Growth	240	0.263	128.943	11.283	0.000
Tangibility	240	0.560	77.053	10.088	0.000
NDTS	240	0.718	49.304	9.051	0.000
ROA	240	0.600	69.929	9.862	0.000
Inflation	240	0.895	18.361	6.757	0.000
MA	240	0.772	39.878	8.558	0.000
MTB	240	0.259	129.099	11.284	0.000
TQ	240	0.234	133.466	11.361	0.000

The significant values of all research variables are less than 0.05, as shown in table 4, showing that they were not all normally distributed. It is important to keep in mind that the research variables, when the normal distribution was tested for them, did not closely resemble it. It had no effect on the validity of the research model if the sample size was more than 30, and as a result, the non-normality of the research variables had no impact on the results *(Field, 2009)*. Moreover, the research conducted Shapiro-wilk test for testing the normality of the residuals and the test revealed non-normality of the residuals with a significant value less than 0.05.

4.6 Statistical analysis for testing hypotheses

The following regression analysis is used to determine the speed of capital adjustment toward the optimal capital structure ratio (SOA%) that will be used to investigate the research hypotheses.

Table 5: Linear Regression Analysis for Determining the Speed of Adjustment Towards the Optimal Capital Structure

LEV	Coef.	t-value	p-value	VIF	1/VIF	Sig
LEVt-1	.622	2.38	.018	1.271	1.137	**
SIZE	.061	4.00	0	1.283	.091	***
Age	.031	1.61	.109	1.073	.932	
GR	.056	2.23	.027	1.043	.958	**
TANG	.011	0.37	.714	1.179	.848	
NDTS	1.606	2.69	.008	1.194	.837	***
ROA	-1.562	-11.34	0	1.183	.845	***
INF	-1.36	-2.61	.01	1.05	.953	***
Constant	-1.04	-3.16	.002			***
SOA	37.8					
SD dependent var			0.308			
Mean dependent var			0.489			
Number of obs			240			
F-test			490.536***			

As shown in Table (5), the following points are evident that the significance of the overall model, where the calculated F-value is (490.536) with a significance level of P-value = 0.000. This indicates that the regression model for this hypothesis has a high degree of fit. Moreover, the independent variables in the model do not suffer from multicollinearity issues, as the Variance Inflation Factor (VIF) for each variable is less than 10.

Recent literature surveys have examined the determinants and dynamics of capital structure adjustment speed (SOA). Firm-specific characteristics, financial reporting quality, corporate governance, institutional factors, and macroeconomic conditions all influence SOA heterogeneity (Thanh Nguyen et al., 2024). Bibliometric analysis reveals a progressive evolution of SOA research from 1984 to 2021, with increasing focus on dynamic models and adjustment costs (Hegde et al., 2023). Empirical studies indicate that firms adjust towards target leverage ratios, following pecking order theory implications, with adjustment speed affected by firm characteristics and leverage distance (William, 2020). Cross-country analysis shows an average SOA of 25% per year, supporting trade-off theory relevance. Differences in adjustment speeds across financial systems are attributed to varying adjustment costs, with firms adjusting more slowly during recessions,

particularly financially constrained firms in market-based countries (Drobetz et al., 2015).

4.6.1. Investigating The Impact of Managerial Ability On The Speed of Adjustment Towards the Optimal Capital Structure.

To test the validity of the first hypothesis, which states: " *Managerial ability has no statistically significant impact on the speed of adjustment towards the optimal capital structure.*", a multiple regression analysis was conducted using the Generalized Method of Moments (GMM) to identify the key factors related to Managerial ability and the speed of adjustment towards the optimal capital structure. Additionally, the speed of capital structure adjustment for the firms under study was estimated based on the proposed model, which equals [(1 – Coef) Lev_{t-1}]. To assess the quality and validity of the estimated model, a Variance Inflation Factor (VIF) test was performed, as shown in the following table (Table 6).

Table 6: Linear Regression Analysis for the Impact of Managerial Ability on the Speed of Adjustment Towards the Optimal Capital Structure

LEV	Coef.	t-value	p-value	VIF	1/VIF	Sig
LEVt-1	.397	3.25	.001	1.274	.785	***
SIZE	.049	3.17	.002	1.362	.734	***
Age	.026	1.26	.21	1.084	.922	
GR	.11	1.58	.116	1.044	.958	
TANG	.014	0.42	.673	1.18	.847	
NDTS	1.435	2.15	.032	1.196	.836	**
ROA	-1.524	-10.24	0	1.183	.845	***
INF	-1.726	-6.57	0	1.051	.952	***
MA	.024	2.68	.008	1.096	.912	***
Constant	-.778	-2.36	.019			**
SOA	60.3					
SD dependent var			0.309			
Mean dependent var			0.488			
Number of obs			240			
F-test			351.534***			

As shown in Table (6), the following points are evident that the significance of the overall model, where the calculated F-value is (490.536) with a significant level of P-value = 0.000. This indicates that the regression model for this hypothesis has a high degree of fit. Moreover, the independent

variables in the model do not suffer from multicollinearity issues, as the Variance Inflation Factor (VIF) for each variable is less than 10.

There is a positive impact (at a significant level of 0.01) for both the previous year's leverage (LEV_{t-1}), firm size (SIZE), non-debt tax shields (NDTS), and managerial ability (MA) on the level of leverage. Meanwhile, there is a negative effect (at a significance level of 0.10 or lower) for both profitability (ROA) and Inflation rate (INF) on the level of leverage.

Additionally, there is no effect for firm age (Age), growth (GR), and tangibility (TANG) on the firm's leverage level. Therefore, the regression equation according to the model is as follows:

LEV = (0.397) LEVt-1 + (0.049) SIZE + (0.026) Age + (0.11) GR+(0.014) TANG + (1.435) NDTS + (0.024) MA-– (1.524) ROA – (1.726) INF – .778

The positive impact of the previous year's leverage on the current year's leverage reflects the dynamic nature of the proposed model. The positive effect of firm size on leverage indicates that larger firms have better access to debt (Ramli et al., 2019; Khaw, 2019) and a greater ability to negotiate with lenders to reduce debt costs (Haron et al., 2021). This finding contrasts with Haron (2016) study, which concluded that large firms prefer issuing equity over debt. The positive effect of firm growth on leverage suggests that companies with greater investment opportunities are more likely to exhaust their internal funds and, consequently, will require additional external financing, typically in the form of debt rather than equity, to take advantage of tax shields (Haron et al., 2021). This contrasts with the Pecking Order Theory (POT), which posits that rapidly growing firms often have substantial retained earnings, and as a result, their debt levels tend to decrease relative to their retained earnings as they increase (Khaw, 2019).

Meanwhile, the negative effect of ROA on leverage aligns with the Pecking Order Theory, as managers of highly profitable firms prefer internal resources to finance investments rather than using external financing (debt or equity) to mitigate and avoid information asymmetry problems (Serrasqueiro et al., 2020; Haron, 2016; Khaw, 2019). However, this finding contradicts the Trade-Off Theory (TOT), which suggests that more

profitable firms rely more on debt due to lower bankruptcy risks and to benefit from tax shields.

Based on this, the first hypothesis, which states " *Managerial ability has no statistically significant impact on the speed of adjustment towards the optimal capital structure.*" is rejected. The empirical evidence supports the Dynamic Trade-Off Theory (DTOT). The results show that Egyptian firms continue to adjust their leverage to align with the optimal capital structure. Accordingly, the speed of adjustment (SOA) was estimated at 37.8%, indicating that behaviors related to adjusting to the optimal capital structure may vary depending on the institutional environment in which the firms operate, reflecting prevailing macroeconomic conditions or the unique characteristics of each firm.

4.6.2. Investigating The Impact of Accounting Conservatism On The Speed of Adjustment Towards the Optimal Capital Structure.

To test the validity of the second hypothesis, which states: " *There is no statistically significant impact of accounting conservatism on the speed of capital structure adjustment.*", a multiple regression analysis was conducted using the Generalized Method of Moments (GMM) to identify the key factors related to accounting conservatism and the speed of adjustment towards the optimal capital structure. According to this analysis, accounting conservatism is measured by Tobin's Q and Market to Book ratio. To assess the quality and validity of the estimated model, a Variance Inflation Factor (VIF) test was performed, as shown in the following table (Table 7 and 8).

Table 7: Linear Regression Analysis for the Impact of Accounting Conservatism measured by Tobin's Q on the Speed of Adjustment Towards the Optimal Capital Structure.

LEV	Coef.	t-value	p-value	VIF	1/VIF	Sig
LEVt-1	.295	4.05	0	1.271	.787	***
SIZE	.048	3.80	0	1.279	.787	***
Age	.02	1.08	.279	1.072	.933	
GR	-.001	-0.04	.969	1.044	.958	
TANG	.002	0.08	.935	1.177	.85	
NDTS	1.551	2.67	.008	1.194	.837	***
ROA	-1.589	-11.22	0	1.183	.845	***
INF	-1.604	-11.02	0	1.05	.953	***
TQ	.019	2.38	.018	1.006	.994	**
Constant	-.746	-2.69	.008			***
SOA	70.5					
SD dependent var		0.309				
Mean dependent var		0.488				
Number of obs		240				
F-test		451.458***				

As shown in Table (7), the following points are evident that the significance of the overall model, where the calculated F-value is (451.458) with a significance level of P-value = 0.000. This indicates that the regression model for this hypothesis has a high degree of fit. Moreover, the independent variables in the model do not suffer from multicollinearity issues, as the Variance Inflation Factor (VIF) for each variable is less than 10.

There is a positive impact (at a significant level of 0.01) for both the previous year's leverage (LEV_{t-1}), firm size (SIZE), non-debt tax shields (NDTS), and Tobin's Q (TQ) on the level of leverage. Meanwhile, there is a negative effect (at a significance level of 0.10 or lower) for both profitability (ROA) and Inflation rate (INF) on the level of leverage.

Additionally, there is no effect for firm age (Age), growth (GR), and tangibility (TANG) on the firm's leverage level. Therefore, the regression equation according to the model is as follows:

LEV = (0.295) LEVt-1 + (0.048) SIZE + (0.02) Age -(0.001) GR+(0.002) TANG + (1.551) NDTS + (0.019) TQ-– (1.589) ROA – (1.604) INF – .746

Based on this, the second hypothesis, which states " *There is no statistically significant impact of accounting conservatism on the speed of capital structure adjustment.*" is rejected as the speed of adjustment increased in light of the proposed model from 37.8% to 70.5%, representing an increase of 32.7%. This increase is due to the positive impact of accounting conservatism measured using TQ on the speed of capital structure adjustment.

The empirical evidence supports that firms with more conservative financial reporting adjust their capital structure more quickly, particularly for under-levered firms relying on external financing (Ramalingegowda & Yu, 2018). The speed of adjustment (SOA) towards target capital structure differs between financially conservative (FC) and non-financially conservative (NFC) firms, with NFC firms generally showing higher SOA (Yasmin & Rashid, 2018). Conservatism is positively associated with financial leverage, and this relationship is enhanced by global diversification (Salama & Putnam, 2015). The average speed of capital structure adjustment varies across countries and financial systems due to differences in adjustment costs (Drobetz et al., 2015). Macroeconomic factors including inflation also influence adjustment speed, with firms adjusting more slowly during recessions, especially financially constrained firms in market-based countries (Drobetz et al., 2015).

These findings align with established theories and empirical evidence in the field of corporate finance. The positive impact of previous year's leverage (LEVt-1) on current leverage is consistent with the pecking order theory (Myers & Majluf, 1984), which suggests that firms prefer to maintain a stable capital structure and adjust their leverage gradually over time. This also supports the idea that firms tend to carry forward their historical debt levels as part of their optimal financial strategy (Hegde et al., 2023).

Additionally, the positive relationship between firm size and leverage is well-supported in the literature. Larger firms typically have better access to capital markets and more favorable borrowing conditions, which enables them to take on higher levels of debt (Titman & Wessels, 1988). Additionally, larger firms may benefit from economies of scale in terms of debt management and are perceived as less risky by creditors due to their more stable earnings (Fama & French 2002; Pattiruhu & Paais, 2020). This

finding is consistent with research that demonstrates that larger firms tend to have higher leverage (Mansour et al., (2023).

The positive impact of NDTS on leverage can be explained by the notion that firms with higher non-debt tax shields (such as depreciation and amortization) have greater financial flexibility and the ability to carry higher levels of debt. This supports the trade-off theory of capital structure, which posits that firms balance the tax benefits of debt with the costs of financial distress (Korteweg, 2010). This result is consistent with prior research showing that firms with high non-debt tax shields can afford more debt (Brounen, Jong, & Koedijk, 2006). Moreover, the positive relationship between Tobin's Q and leverage suggests that firms with higher growth opportunities (as indicated by Tobin's Q) are more likely to use debt financing to fund their investments. This finding is in line with agency cost theory, which suggests that firms with high growth prospects are more inclined to take on debt to reduce agency problems and align the interests of shareholders and managers (Jensen & Meckling, 1976). Similarly, previous studies have shown that firms with higher growth potential tend to use more debt to finance new projects (Gabrielli, A. (2023).

The results also show a negative relationship (at the 0.10 significance level or lower) for both profitability (ROA)and inflation rate (INF) on leverage. These findings are consistent with existing literature, where profitability and inflation have been shown to influence capital structure decisions. That is, the negative relationship between profitability (ROA) and leverage is in line with the pecking order theory (Myers & Majluf, 1984), which suggests that more profitable firms are likely to rely on internal financing rather than debt. Firms with higher profitability generate sufficient cash flow, reducing the need for external borrowing. This result is also consistent with previous studies that show a negative relationship between profitability and leverage (Fama & French, 2002; Pattiruhu & Paais, 2020; Arhinful & Radmehr, 2023).

The negative impact of inflation on leverage may be attributed to the uncertainty and increased risk associated with high inflation environments. Higher inflation rates can increase the cost of debt, reduce the real value of debt, and make future cash flows more uncertain, which in turn may discourage firms from taking on additional leverage (Narayan, et al., 2021).

Previous studies have shown that inflation has a negative impact on debt levels due to the increased costs of borrowing and the erosion of debt value in real terms.

Finally, the results indicate no significant impact for firm age (Age), growth (GR), and tangibility (TANG) on leverage levels. These results differ somewhat from some prior research, which has often found relationships between these variables and capital structure. The absence of a significant relationship between firm age and leverage contrasts with some prior studies that suggest older firms may have more stable cash flows and better access to debt markets, thus allowing them to take on more debt (DeAngelo & Roll, 2015). However, other studies argue that older firms may not necessarily have higher debt levels, as they may have already established their optimal capital structure or have lower growth opportunities.

While growth has often been positively associated with leverage in studies using Tobin's Q as a proxy for growth opportunities, the lack of a significant relationship here may be due to the specific context of the sample or the measures used for growth. Growth opportunities may be captured indirectly by Tobin's Q, leaving little room for growth to have a direct impact on leverage decisions. The lack of a significant impact for tangibility on leverage may suggest that firms in the sample rely on non-asset-based forms of financing, such as retained earnings or equity, rather than using tangible assets as collateral for debt. Some studies have found that tangible assets are important for securing debt, but this effect might be less pronounced in firms with a high reliance on other financing sources.

Overall, the results suggest that firms' leverage decisions are influenced by a combination of historical leverage, firm size, tax shields, and growth opportunities, with profitability and inflation acting as constraints on leverage. The findings also suggest that firm age, growth, and tangibility may not have as significant an impact on leverage in the specific context of this study, which warrants further investigation to understand the conditions under which these variables may become more influential.

Table 8: Linear Regression Analysis for the Impact of Accounting Conservatism measured by MTB ratio on the Speed of Adjustment Towards the Optimal Capital Structure.

LEV	Coef.	t-value	p-value	VIF	1/VIF	Sig
LEVt-1	.324	3.15	.002	1.271	.787	***
SIZE	.073	7.36	0	1.278	.783	***
Age	.025	1.43	.153	1.071	.934	
GR	.001	0.06	.951	1.044	.958	
TANG	.003	0.12	.904	1.18	.847	
NDTS	1.379	2.50	.013	1.195	.837	**
ROA	-1.538	-12.70	0	1.185	.844	***
INF	-.748	-2.62	.009	1.05	.953	***
MTB	.008	2.48	.014	1.011	.989	**
Constant	-1.247	-5.51	0			***
SOA	67.6					
SD dependent var			0.309			
Mean dependent var			0.488			
Number of obs			240			
F-test			489.166***			

As shown in Table (8), the following points are evident that the significance of the overall model, where the calculated F-value is (489.166) with a significance level of P-value = 0.000. This indicates that the regression model for this hypothesis has a high degree of fit. Moreover, the independent variables in the model do not suffer from multicollinearity issues, as the Variance Inflation Factor (VIF) for each variable is less than 10.

There is a positive impact (at a significant level of 0.01) for both the previous year's leverage (LEV_{t-1}), firm size (SIZE), non-debt tax shields (NDTS), and market to book value ratio (MTB) on the level of leverage. Meanwhile, there is a negative effect (at a significance level of 0.10 or lower) for both profitability (ROA) and Inflation rate (INF) on the level of leverage.

Additionally, there is no effect for firm age (Age), growth (GR), and tangibility (TANG) on the firm's leverage level. Therefore, the regression equation according to the model is as follows:

LEV = (0.324) LEVt-1 + (0.073) SIZE + (0.025) Age -(0.001) GR+(0.003) TANG + (1.379) NDTS + (0.008) MTB– (1.538) ROA – (0.748) INF – 1.247

Based on this, the second hypothesis, which states " *There is no statistically significant impact of accounting conservatism on the speed of capital structure adjustment.*" is rejected as the speed of adjustment increased in light of the proposed model from 37.8% to 67.6%, representing an increase of 29.8%. This increase is due to the positive impact of accounting conservatism measured using MTB on the speed of capital structure adjustment. Additionally, these results are consistent with the regression analysis for testing this hypothesis using TQ as a measure of accounting conservatism which reflects the robustness' of the regression model.

4.6.3. Investigating The Impact of Managerial Ability and Accounting Conservatism On The Speed of Adjustment Towards the Optimal Capital Structure.

To test the validity of the third hypothesis, which states: " *There is no statistically significant impact of managerial ability and accounting conservatism on the speed of capital structure adjustment.*", a multiple regression analysis was conducted using the Generalized Method of Moments (GMM) to identify the key factors related to managerial ability and accounting conservatism and the speed of adjustment towards the optimal capital structure. According to this analysis, accounting conservatism is measured by Tobin's Q and Market to Book ratio. To assess the quality and validity of the estimated model, a Variance Inflation Factor (VIF) test was performed, as shown in the following table (Table 9 and 10).

Table 9: Linear Regression Analysis for the Impact of Managerial Ability and Accounting Conservatism measured by Tobin's Q on the Speed of Adjustment Towards the Optimal Capital Structure.

LEV	Coef.	t-value	p-value	VIF	1/VIF	Sig
LEVt-1	.069	6.80	0	1.274	.785	***
SIZE	.061	5.44	0	1.36	.735	***
Age	.024	1.22	.225	1.072	.933	
GR	.008	0.59	.557	1.044	.958	
TANG	.001	0.02	.981	1.178	.849	
NDTS	1.581	2.64	.009	1.196	.836	***
ROA	-1.548	-11.82	0	1.184	.845	***
INF	-1.088	-5.38	0	1.051	.952	***
MA	.061	2.48	.014	1.101	.908	**
TQ	.027	3.28	.001	1.01	.99	***
Constant	-.996	-3.82	0			***
SOA	93.1					
SD dependent var			0.309			
Mean dependent var			0.488			
Number of obs			240			
F-test			378.703***			

As shown in Table (9), the following points are evident that the significance of the overall model, where the calculated F-value is (378.703) with a significance level of P-value = 0.000. This indicates that the regression model for this hypothesis has a high degree of fit. Moreover, the independent variables in the model do not suffer from multicollinearity issues, as the Variance Inflation Factor (VIF) for each variable is less than 10.

There is a positive impact (at a significant level of 0.01) for both the previous year's leverage (LEV_{t-1}), firm size (SIZE), non-debt tax shields (NDTS), managerial ability (MA) and Tobin's Q (TQ) on the level of leverage. Meanwhile, there is a negative effect (at a significance level of 0.10 or lower) for both profitability (ROA) and Inflation rate (INF) on the level of leverage.

Additionally, there is no effect for firm age (Age), growth (GR), and tangibility (TANG) on the firm's leverage level. Therefore, the regression equation according to the model is as follows:

LEV = (0.069) LEVt-1 + (0.061) SIZE + (0.024) Age -(0.008) GR+(0.001) TANG + (1.581) NDTS + (0.061) MA + (0.027) TQ– (1.548) ROA – (1.088) INF – 0.996

Based on this, the third hypothesis, which states " *There is no statistically significant impact of accounting conservatism on the speed of capital structure adjustment.*" is rejected as the speed of adjustment increased in light of the proposed model from 37.8% to 93.1%, representing an increase of 55.3%. This increase is due to the positive combined impact of managerial ability and accounting conservatism measured using TQ on the speed of capital structure adjustment. Moreover, the increase in SOA due to the combined impact of managerial ability and accounting conservatism (55.3%) is more than the increase in SOA due to the impact of managerial ability solely (22.5%) and due to the impact of accounting conservatism solely (32.7). this indicates the suggested model of the research with the combined impact of managerial ability and accounting conservatism affect the speed of capital structure towards the optimal level in an extensive way.

Table 10: Linear Regression Analysis for the Impact of Accounting Conservatism measured by MTB and Managerial Ability on the Speed of Adjustment Towards the Optimal Capital Structure.

LEV	Coef.	t-value	p-value	VIF	1/VIF	Sig
LEVt-1	.226	2.99	.003	1.274	.785	***
SIZE	.068	6.62	0	1.357	.737	***
Age	.017	0.94	.349	1.082	.924	
GR	.003	0.23	.819	1.044	.957	
TANG	.002	0.06	.955	1.182	.846	
NDTS	1.539	2.76	.006	1.196	.836	***
ROA	-1.557	-12.83	0	1.185	.844	***
INF	-.722	-2.52	.013	1.051	.951	**
MA	.065	7.40	0	1.101	.908	***
MTB	.008	2.37	.019	1.013	.988	**
Constant	-1.108	-4.66	0			***
SOA	77.4					
SD dependent var			0.309			
Mean dependent var			0.488			
Number of obs			240			
F-test			441.653***			

As shown in Table (10), the following points are evident that the significance of the overall model, where the calculated F-value is (441.653) with a significance level of P-value = 0.000. This indicates that the regression model for this hypothesis has a high degree of fit. Moreover, the independent variables in the model do not suffer from multicollinearity issues, as the Variance Inflation Factor (VIF) for each variable is less than 10.

There is a positive impact (at a significant level of 0.01) for both the previous year's leverage (LEV_{t-1}), firm size (SIZE), non-debt tax shields (NDTS), managerial ability (MA) and Market To Book ratio (MTB) on the level of leverage. Meanwhile, there is a negative effect (at a significance level of 0.10 or lower) for both profitability (ROA) and Inflation rate (INF) on the level of leverage.

Additionally, there is no effect for firm age (Age), growth (GR), and tangibility (TANG) on the firm's leverage level. Therefore, the regression equation according to the model is as follows:

LEV = (0.226) LEVt-1 + (0.068) SIZE + (0.017) Age -(0.003) GR+(0.002) TANG + (1.539) NDTS + (0.065) MA + (0.008) MTB– (1.557) ROA – (0.722) INF – 1.108

Based on this, the third hypothesis, which states " *There is no statistically significant impact of accounting conservatism on the speed of capital structure adjustment.*" is rejected as the speed of adjustment increased in light of the proposed model from 37.8% to 77.4%, representing an increase of 39.6%. This increase is due to the positive combined impact of managerial ability and accounting conservatism measured using MTB on the speed of capital structure adjustment. Additionally, these results are consistent with the regression analysis for testing this hypothesis using TQ as a measure of accounting conservatism which reflects the robustness' of the regression model.

4.7. Findings

First: Capital Structure Adaptation Varies by Institutional Environment:

Companies adjust their capital structure based on macro-level conditions and firm-specific characteristics. The study found that leverage from the previous year, company size, growth rate, and n0n-debt tax shield positively influence the speed of capital structure adjustment (SOA). Conversely, profitability and inflation negatively impact SOA. No significant effect was found for firm age and asset tangibility. Based on the proposed model, the estimated SOA is 37.8%.

Second: Managerial ability and Capital Structure Adjustment:

Companies with higher managerial ability tend to adjust more quickly to the optimal capital structure. The SOA increased from 37.8% to 60.3% (22.5% increase) due to the positive effects of managerial ability.

Third: Accounting conservatism and Capital Structure Adjustment:

The study found a statistically significant relationship between accounting conservatism and SOA. That is, accounting conservatism measured by TQ increased SOA from 37.8% to 70.5% (32.7% increase), and (29.8% increase) due to using MTB for measuring accounting conservatism. This indicates the role of accounting conservatism in optimizing capital structure decisions.

Fourth: The impact of managerial ability and accounting conservatism on Capital Structure Adjustment:

The combined impact of managerial ability and accounting conservatism had a significant positive effect on SOA. Due to this combined impact, SOA increased from 37.8% to 93.1% using TQ as a measure of accounting conservatism (55.3% increase), and an increase from 37.8 % to 77.4% (39.6 % increase) using MTB as a measure of accounting conservatism highlighting that firms deviate towards their optimal capital structure when managerial ability and accounting conservatism existed and increased.

4.8. Recommendations

Based on research findings, the following recommendations are proposed to enhance corporate financial decision-making and optimize capital structure adjustments:

1.Integrating Macroeconomic and Firm-Specific Factors in Capital Structure Decisions

Given that leverage from the previous year, company size, growth rate, and non-debt tax shields positively influence the speed of capital structure adjustment (SOA) while profitability and inflation negatively impact SOA, firms should regularly assess macroeconomic conditions and adjust financing strategies accordingly.
in addition, firms should consider non-debt tax shields (e.g., depreciation benefits) to improve financial flexibility in addition to implementing dynamic capital structure strategies that account for growth potential and profitability variations. Moreover, firms should monitor inflationary trends and adopt hedging mechanisms to mitigate adverse effects on SOA.

2. Enhancing Managerial Ability to Accelerate Capital Structure Adjustments

The research found that higher managerial ability significantly increases SOA, highlighting the importance of competent financial leadership. Firms should invest in executive training programs that enhance financial decision-making and strategic planning in addition to prioritize hiring and retaining skilled financial managers with a strong track record in capital structure optimization. Moreover, firms should establish performance-based incentives tied to efficient financial restructuring and value creation, and encourage continuous learning and adaptation to financial market dynamics to maintain agility in capital structure decisions.

3. Strengthening Accounting Conservatism for Improved Financial Stability

The research identified a statistically significant relationship between accounting conservatism and SOA, demonstrating its role in optimizing capital structure adjustments. Firms should adopt conservative accounting

policies that emphasize transparency and prudent financial reporting and ensure accurate valuation of assets and liabilities to enhance financial stability and reduce uncertainty in capital structure adjustments. Moreover, firms should consider leverage accounting conservatism as a risk management tool to protect against over-leveraging and financial distress in addition to aligning accounting policies with regulatory requirements and best practices to improve investor confidence.

4. Leveraging the Combined Impact of Managerial Ability and Accounting Conservatism

The joint effect of managerial ability and accounting conservatism resulted in the highest SOA increase (up to 93.1%), suggesting that firms aligning these factors are more likely to achieve their optimal capital structure. To maximize this impact, firms should foster a strong governance framework that promotes both financial expertise and conservative accounting practices. In addition, integrating managerial decision-making with conservative financial reporting to ensure stable and sustainable capital structure adjustments. Moreover, firms should encourage cross-functional collaboration between finance, accounting, and executive leadership teams to enhance strategic alignment.

By implementing these recommendations, firms can enhance their financial agility, strengthen capital structure management, and improve long-term financial stability. The research underscores the interconnected role of economic conditions, managerial expertise, and accounting policies in shaping optimal financial strategies. Future research can further explore the industry-specific implications of these factors to provide more tailored capital structure guidelines. Firms that invest in managerial competence, embrace accounting conservatism, and align financial strategies with macroeconomic realities will achieve a faster and more efficient capital structure adjustment, ensuring sustained growth and financial resilience.

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