

This study examined the leverage behavior and speed of adjustment in context with the firm performance indicators (profitability, tangibility, growth & size) in manufacturing industry of Pakistan across the different sectors. The leverage behavior is predicted through OLS by using the firm performance indicators as predictors. Speed of adjustment in leverage is tested with the help of General Linear Model (GLM) and Autoregressive Distributed Lag (ARDL) model. It is found that the profitability, tangibility and growth plays a significant role in adjusting the leverage, and moreover the adjustment speed of the leverage found different across the sectors. We have learned that the leverage targets can be adjusted on the basis of three variables i.e. profitability, tangibility and growth. Moreover, it is found that exponential leverage adjustment is better than linear leverage adjustment.

Keywords: Liquidation, Firm Value and Leverage.