

Original Article

ANALYZING THE INFLUENCE OF LEASE FINANCING ON CORPORATE FINANCIAL OUTCOMES OF NIGERIAN NON-FINANCIAL COMPANIES

Chinonso E. Ndukwe¹ and Grace A. Okoro²

¹Postgraduate Research Student, Department of Accountancy, University of Cross River State, Calabar, Nigeria.

²Professor, Department of Accountancy, University of Cross River State, Calabar, Nigeria.

DOI: <https://doi.org/10.5281/zenodo.13778082>

Abstract: The study determined the effect of lease financing on the corporate financial performance of quoted non-financial companies in Nigeria. The specific objective was to examine the effect of operating leases and capital leases on the return on assets of quoted non-financial companies in Nigeria. Ex-post facto research design was used in the study. The population of the study comprised 63 listed non-financial firms in Nigeria. Data were collected from thirty (30) quoted companies between 2011-2020. The Panel Regression results estimated using Panel Corrected Standard Error (PCSE) revealed the following: Operating leases has significant effect on the Returns on assets (ROA) of quoted non-financial companies in Nigeria at the 0.05 significance levels; capital leases have significant effect on the Returns on assets (ROA) of quoted nonfinancial companies in Nigeria at the 0.05 significance levels. In conclusion, the positive effect of finance leases on ROA of Nigerian non-financial quoted companies is a result of higher contribution of leases to profits, than to assets components. The study recommends that firms should embrace operating leases financing as a method of financing their operations in order to improve operating profits, as such leases do not utilize or deplete existing working capital of firms.

Keywords: Lease Financing, Corporate Financial Performance, Operating Leases, Capital Leases, Return on Assets

INTRODUCTION

Leasing is a vital and broadly used source of funding, with various economic benefits. It enables units from start-ups, multinationals to public institutions to obtain the obligation to use assets such as equipment, machinery and plants without making large volume of cash expenditures. The International Accounting Standard (IAS) 17 defined a lease as a contractual agreement between an owner (lessor) and the other party (the lessee) which

Original Article

conveys to the lessee the right to use the leased asset for a consideration. Periodic rents accrued to the lessor as stream of income, while the lessee incurs the rents as expenses or debt obligations. Leasing is an alternative means of financing plant, equipment and property, and a contract between an owner of equipment and another party to whom the asset is to be given possession and use in turn for payment of specific rentals over an agreed period (Bello& Almustapha, 2016). The lessee may or may not be entitled to acquire title to the property through the exercise of an option to purchase, usually at the end of the lease term. The lessor is required to finance the acquisition of equipment required by the lessee who would have selected the goods and dealt directly with supplier in determining their performance attributes and suitability (Salem, 2013).

Access to finance remains a critical factor to any corporate firm. Leasing is viewed as one of the sources of finance option available to firms and organizations both in emerging and developed financial markets. The economic benefits of leasing are thus a derivative of the company's decision to lease relative to borrowing and obtaining the asset. The arguments advanced on the significant impacts of lease on the financial performance of the firm as opposed to purchase of assets include tax differential effects, debt substitutability, agency costs and free cash flows. In pecking order theory of capital structure, leasing has first priority in external financing hence the need to study it. There are conflicting motivations for structuring a lease as an operating lease or financing lease. First, from a financing standpoint, financing leases have economic characteristics that fall between operating leases and debt. When compared with debt, financing leases maybe cheaper or easier to obtain because of the ease with which the lessor can repossess the leased asset should the lessee face bankruptcy. Second, from a tax perspective, firms have an incentive to structure leases as financing leases rather than as operating leases because they can take advantage of the tax savings from deductible interest expenses. By contrast, from a financial reporting perspective, firms have an incentive to structure leases as operating leases instead of as financing leases in order to keep these obligations off the statement of financial position and thus reduce the appearance of risk. However, no matter the structure of the lease transaction, the motivation for lease financing emanates from the perceived financial performance effects of leasing relative to other forms of borrowing (Bello & Almustapha, 2016).

Financial performance refers to the act of meeting financial targets and goals. In broader sense, it refers to the degree to which financial objectives is being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. Van Horne (2005) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term according to Pandey (2000), is used as a general measure of the overall financial health of a business. The concept of financial performance is a controversial issue in finance due to its multidimensional meaning. In analysing a firm's financial performance, emphasis should be made in formulating an adequate description of the concept of a financial performance which will uncover the different forms upon which firm's financial performance can be measured.

Prior lease accounting research has been examined whether investors are able to understand the economic implications of all category of leases when assessing the implications of leasing on firm financial performance (Imhoff, Robert & David, 2004). This stream of research provides empirical evidence regarding the economic implications of leasing on the financial performance of non-financial firms in developed markets. In this regard, this work links leasing practices and the performance of non-financial firms in Nigeria, using the two known proxies to measure leases based on financial statements decompositions, drawn from prior 'leases accounting

Original Article

research' – operating leasing leases and capital leasing (see Eisfeldt & Rampini, 2009; Dhaliwal, Lee & Neamity, 2011; Jabbazzadeh, Motavasel & Mohammed, 2012).

For corporate managers to make decision concerning financing activities is always very tasking due to the fact that the economic benefits of different finance options are the same irrespective of the type of financing used. However, there are various costs implications depending on the financing option that a firm intends to use because all the sources ranging from finance lease, operating lease, equity finance and debt finance come with various financial implications. The rationale for leasing is based on the fact that leasing provides customized means of financing assets/equipment with potentially unique cash flows and tax features. Financing of some essential assets/equipment is one of the major challenges that firms in Nigeria are facing. Because of stringent requirements of leasing firms, corporate organizations find it hard to generate enough funds to maintain the terms of condition in the lease contract which at times result to litigation between the lessor and the lessee.

However, financing assets or equipment through lease agreement has been in practice for years, because despite the challenges associated with lease financing decision, it is one of the easiest means of financing any business activities, and it has been very helpful, especially to existing financial institutions in distress or new ones that find it hard to secure loans to acquire their assets or equipment. Therefore, the researcher finds it pertinent to evaluate the relationship between lease financing and firm's performance and provide answers that will help address the challenges of lease financing.

Also, leasing as a source of financing has not been given in-depth empirical investigation in developing and emerging markets, especially in Nigeria, despite the fact that companies are increasingly resorting to leasing in the current economic condition of the Nigerian market. In order to ascertain the implication of the growing need to use leasing on the financial performance of firms in Nigeria, there is a need to apply this to a couple of sectors (excluding the financial sector). This would help provide empirical evidences of the practices and implications of leasing in each sector on the Stock Exchange. Therefore, the identified gaps above and the differences between prior findings motivate the research to pursue and determine significant effects of lease funding on the financial performance of non-financial corporations quoted in the Nigerian Exchange Group (NGX). The current research fills the gap by employing three measurements of lease financing contained in prior literature, and measure financial performance as Return on assets (ROA), using non-financial companies listed in the NGX.

1.1 Objectives of the Study

The main objective of this study is to determine the effects of lease financing on the corporate financial performance of quoted non-financial companies in Nigeria. The following specific objectives are established:

- i. To examine the effect of operating leases on the Returns on assets (ROA) of quoted non-financial companies in Nigeria.
- ii. To investigate the effect of capital leases on the Returns on assets (ROA) of quoted non-financial companies in Nigeria.

1.2 Hypotheses

The following hypotheses are stated in the null:

H₀₁: Operating leases have no significant effect on the Returns on assets (ROA) value of quoted non-financial companies in Nigeria.

Original Article

Ho₂: Capital leases have no significant effect on the Returns on assets (ROA) value of quoted non-financial companies in Nigeria.

2.0 Literature Review 2.1 Conceptual framework

2.1.1 Lease financing

Lease financing is one of the important sources of medium and long-term financing where the owner of an asset gives another person, the right to use the asset against periodic payments. Differences between the accounting treatments for capital and operating leases have presented a dilemma to many in the financial community. The controversy over leases dates back to the days of the Committee on Accounting Procedure (CAP) in the 1930's. Following the CAP, the Accounting Principles Board (APB) issued five Opinions related to leases. Despite the issuance of such authoritative pronouncements Wyatt (1974) and Brown and Wyatt (1983) argued that a lease arrangement is a legal liability that should be capitalized instead of being disclosed only in a footnote. More recently, the FASB has issued more than 26 Standards, Interpretations, and Technical Bulletins on the subject of leases.

Lease pronouncements have evolved from principles-based pronouncements to rules-based pronouncements, resulting in a capital lease from an operating lease. However, there is evidence that bright-line rules are easily manipulated such that the lessee can avoid capitalizing a lease arrangement that is substantially equivalent to financing the purchase of an asset (Dieter, 1979). Additionally, the structuring of the terms of the lease arrangement can also result in what should be a capital lease being treated as an operating lease and what should be an operating lease being treated as a capital lease (Coughlan 1980).

The bright-line rules have led to significant comparability issues. As Fahnestock (1998) pointed out, the footnote disclosures for capital and operating leases are so different that it is virtually impossible to compare one firm that has capital leases on the statement of financial position to another firm that has operating leases disclosed in the footnotes. Capital lease disclosures call for the gross amount of the payments discounted to the present value. Operating lease disclosures specify only the gross amount of the payments. Additionally, leases for real property and tangible personal property are comingled in the disclosures. The difference in the disclosure requirements for capital and operating leases requires financial statement users to incorporate numerous assumptions when trying to constructively capitalize operating leases for analytical evaluation. This is an imperfect approach, at best, resulting in a host of measurement issues (Fahnestock & King 2001)

The controversy surrounding capital versus operating leases has led researchers to estimate the impact of non-capitalized operating leases on performance metrics. Using an anecdotal approach, Imhoff, Lipe and Wright (1991, 1993, 1997) found significant differences in specific performance metrics such as return on assets and debt to equity. Fahnestock and King (2001) used a sample of firms and concluded that non-capitalized operating leases had a significant impact on some performance metrics but not on others. For example, the effect on the longterm debt to equity ratio was significant, but the impact on the total debt to equity ratio was not significant.

There is also evidence that lending practices are influenced by the lease accounting issue. This is likely the result of the differences in performance metrics. In some studies, lenders were sent an original financial statement along with a disguised financial statement with constructively capitalized operating leases. The results revealed that lenders were more likely to make loans to the firms with operating leases than to the firms with capital leases. Wilking and Zimmer (1983). This led Lewis and Schallheim (1992) to the conclusion that debt and leasing were

Original Article

not substitutes but were complements. In short, management has three options with regard to financing assets: equity, debt, and leases.

A common criticism of these criteria is that lessees can intentionally fail these tests to achieve operating lease treatment, and this assertion is corroborated by the fact that the vast majority of long-term corporate leases are classified as operating leases rather than capital leases. However, companies are required to disclose operating lease payments for each of the next five years along with the total for all operating lease payments to be made after year five. Although no technique will provide an exact answer, these disclosures and a few assumptions make it possible to approximate the effects of capitalizing operating leases. However, there is diminishing marginal return in terms of “accuracy” as the complexity of the methods increases.

2.1.2 Types of leases and their accounting treatment

There are broadly two types of leases, finance (capital) lease and operating lease under the IAS 17 Lease classification. These two classifications are adopted as measures of lease financing in this study. However, there are other types of leases connected with the two major categorization, which include sales and lease back, and leveraged leasing. The various types of leasing are highlighted in this section.

2.1.3.1 Finance (capital) lease

These are long-term, non-cancellable lease contracts (Kurfi, 2003). It combines some of the benefits of leasing with those of ownership. Hence a finance lease is structured as a noncancellable agreement, where the leasing company buys the equipment which the client has chosen and the client uses the equipment for a significant period of its useful life (Ndu, 2004).

Financial Lease is a long-term lease on fixed assets; it may not be cancellable by either party. It is a source of long-term funds and services as an alternative of long-term debt financing. In financial lease the leasing company buys the equipment and leases it out to the use of a person known as the lessee. It is a full payout lease involving obligatory payment by the lessee to the lessor that exceeds the purchase price of the leased property and finance cost.

According to Clark (2008, p. 33), "a financial lease is a contract involving payment over an obligatory period of specified sums sufficient in total to amortize the capital outlay of the lessor and give some profit". Financial lease has been defined by International Accounting Standards Committee as "a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred." Lessor is only a financier and is not interested in the assets

According to Vasantha (2012), a financial lease must have the following features, viz.

- The lease is not cancellable by the lessee prior to its expiration date;
- The lessor may or may not provide service, maintenance, and insurance for the asset; and,
- The asset is fully amortized over the life of the lease

In addition to the above, a finance lease should meet any one to the following two conditions:

- The lease has the use of the asset for 75% or more of the estimated economic life of the leased property;
- The present value at the beginning of the lease term of the minimum amounts payable under the lease (exclusive of amounts payable for insurance, maintenance and similar normal outgoing) is at least equal to 90% of the cost of the leased assets net of investment grants. In the case of default committed by the lessee in payment of lease money the lessor has recourse to the leased asset as the owner.

Original Article

Accounting for finance lease in the lessee's entity

Upon the receipt of assets under the finance lease agreement, the lessee records non-current assets and non-current liabilities at the amount of asset value coverage, and where the interest is not set – at the amount of minimum lease payments discounted applying the average market interest rate. If prior to receiving the asset the lessee has made a prepayment, non-current liabilities are recognized at the amount of asset value coverage reduced by the amount of the prepayment (Ndu, 2004).

Costs related to concluding the finance lease agreement and preparing the assets, that are incurred before the assets are brought into use, are included in the value of assets received under the finance lease agreement. Interest expenses are not regarded as such costs. Depreciation of assets used under the finance lease agreement is calculated on the basis of the same accounting policy applied for calculating the depreciation of own assets. If the agreement does not provide that the lessee will obtain the title at the end of the lease term or if the lessee does not intend to acquire the assets at the end of the lease term, the assets shall be depreciated over the lease term set in the finance lease agreement (Ndu, 2004).

Lease payments recorded in accounting shall be differentiated specifying the amount of asset value coverage, interest and other payments (recoverable fees, contingent rent). Interest is included into expenses for financial and investing activities on the accrual basis. The amount of asset value coverage is subtracted from amounts payable under the finance lease agreement, and recoverable fees and contingent rent are included into operating expenses of the reporting period unless they are included in the acquisition (production) cost of other assets. Upon termination of the finance lease agreement losses of lessee incurred due to its obligation to compensate the costs of terminating the agreement are included into operating expenses of the reporting period (Ndu, 2004).

Accounting for finance lease in the lessor's entity

Upon transferring the assets under the finance lease agreement, the lessor records in accounting amounts receivable after one year at an amount equal to the net investment in the lease. The lessor recognizes payments received according the finance lease agreement as the repayment of debt (at the amount of asset value coverage) and sales revenue (at the amount of interest) or income from other activities when finance leasing is not the primary activity of the lessor (Vasanth, 2012).

Interest income shall be recorded on the accrual basis. Interest shall be allocated to periods to make it possible to determine the fixed rate of interest for covering the remaining portion of assets. If the agreement does not specify the amount of interest, but indicates the interest rate, the amount of interest calculated according to that interest rate shall be recorded as income. If the agreement does not specify an interest rate, or the interest rate is very low, the principle of fixed interest rate equal to the average market interest rate at the inception of the lease shall be observed. The estimated unguaranteed residual value used in computing the lessor's gross investment in the lease shall be reviewed on a regular basis. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in the value is attributed to expenses. Initial direct costs arising upon entry into the finance lease agreement (legal fees, levies, commissions, etc.) are recognized as operating expenses at the inception of the lease. Costs of subsequent periods related to assets transferred under the finance lease agreement are recognized as expenses in the periods when they are incurred (Vasanth, 2012).

Original Article

Recoverable fees paid by the lessor are recorded as operating expenses of the payment period, and when the lessee compensates them, operating expenses of the given period are respectively reduced. Assets returned to the lessor upon termination of the finance lease agreement are recorded in the lessor's accounting at the amount equal to the outstanding amount of asset value coverage. A lessor shall record the data on unearned finance income in its off statement of financial position accounts. When the fair value of assets produced by the lessor and transferred under the finance lease agreement differs from their production cost, it is considered that the lessor earns sales revenue and interest income from such transaction. Sales revenue and the cost of sale are recognized at the date of the transaction according to the accounting policies applied by the entity to ordinary sales transactions (Vasantha, 2012).

2.1.3.2 Operating lease

An operational lease involves the lessee only renting an asset over a time period which is substantially less than the asset's economic life. In such cases operating lease may run for 3 to 5 years (Adekunle, 2005). The lessor is usually responsible for maintenance and insurance. It is cancellable by the lessee prior to its expiration, the lessor provides service, maintenance and insurance, and the sum of all lease payments by the lessee does not necessary fully provide for the recovery of the asset cost.

Operating lease involves high payments of rentals. It is a non-pay-out lease in which the lessor's obligations include services other than the financing of the purchase price of the leased property such as maintenance, repair, and technical advice. A good example of an operating or service lease is a lease for telephone service wherein the Telephone Department renders all such services for the leased telephone equipment against fixed uniform rentals from the users. The following features usually characterize an operating Lease:

- The lease is cancellable by the lessee prior to its expiration;
- The lessor provides services, maintenance, and insurance;
- The sum of all the lease payments by the lessee does not necessarily fully provide for the recovery of the asset's cost;
- The lessor has the option to recover cost of another party on cancellation of the lease by leasing out the asset again.

Accounting for operating lease in the lessee's entity

Lease payments under the operating lease agreement shall be recognized as expenses, they are not recognized as the production cost of goods being manufactured or the cost of non-current assets. If an operating lessor in order to promote concluding an operating lease agreement agrees to cover a part of operating lessee's costs, the latter shall reduce lease expenses during the term of the operating lease or promotion. Repair and maintenance costs of assets, insurance costs of assets used under the operating lease are recognized as expenses over the period of validity of the insurance contract, if the operating lessor does not compensate such costs. If insurance costs are compensated, the expenses recognized are reduced accordingly. Depreciation of assets used under the operating lease is calculated and recognized as expenses by the owner of such assets (Adekunle, 2005). **Accounting for**

operating lease in the lessor's entity

Assets leased out under the operating lease agreement are recorded in the operating lessor's statement of financial position on the basis of the type of assets. Income calculated according to the operating lease agreement is recognized in the period when it is earned. If an operating lessor in order to promote concluding an operating

Original Article

lease agreement covers a part of operating lessee's costs, the lessor shall reduce the lease income during the term of the operating lease or promotion (Clark, 2008; Adekunle, 2005).

Costs related to leased out assets, including depreciation of assets, are recognized as expenses in the period when they are incurred. Costs related to concluding an operating lease agreement and other costs arising due to the intention to earn income from the operating lease of assets may be accrued and recognized as expenses over the lease term of the assets or in the period when they are incurred. Depreciation of assets leased out shall be calculated using the same accounting policy that the entity applies to other assets of the same group. An operating lessor who leases out internally produced assets shall not record any sales revenue, because such transaction, in terms of its contents and economic substance, is not a sale (Adekunle, 2005).

Disclosing information about operating leases in financial statements

Kurfi (2003) posit that in complete explanatory notes, an operating lessee shall disclose the significant data about the amounts of lease payments, the terms of operating leases, and other relevant information about operating lease agreements. In complete explanatory notes an operating lessor shall disclose information such as the values of assets leased out, the terms of leases, the possibility to extend the terms of leases, and other significant information about operating lease agreements.

2.1.4 Arguments for leasing

There are arguments in favour of leasing in prior literature. Devaney and Lizieri (2004) classify these arguments as both financial and operating arguments.

2.1.4.1 Other types of leases

Sales and lease back

A sale and leaseback is a special financing technique that is used in some markets. It is often used between large investors and large manufacturing firms. The normative sale and leaseback transaction is one in which the owner of a property sells that property to a third party and simultaneously takes a lease on that property from the third party (Adams & Clarke, 2006). In other words, the original owner sells the property to an investor, who immediately becomes his landlord.

Vasantha (2012) posit that sale and leaseback is also used by freeholders who have been owner occupiers for some time as a way of releasing the capital tied up in their real estate. The deal that can be achieved will depend on the quality of the business and the buildings. Businesses that have been successful and have strategies for the future which would suggest that success will continue are essentially attractive to institutional investors, even before the real estate is considered. The funds released to the business can be used for future growth. Consequently, reducing assets by the sale and leaseback of real estate and proceeds in operations that improve the cash flow may even enhance rather than restrict future loan finance. According to him, the largest and highest profile sale and leaseback arrangements usually involve land and property. A wide range of assets can be sold and leased back. The main requirement is that they are capital assets that may be subject to a long-term lease. The rental payments over the term of the lease may be negotiated to amortize the purchase price of the property and to yield a satisfactory rate of return

Clark (2008) claims that sale and leaseback can be beneficial for the buyer and seller alike. The seller attains a lump sum of cash quickly and the buyer acquires a lower than market value purchase price, along with a long-term lease at a premium rate. The characteristics of sale and leaseback are in view of aspects from both property

Original Article

investors and operating companies, which are likely to consider in subsequent sale and leaseback transactions. They include: Sale and leaseback consists of buying and selling capital assets, Sale and leaseback is also used as financing tools in certain instances of company acquisition. A sale and leaseback is generally long term basis and required property assets that must be of sound quality.

An operating or a finance leaseback transaction involves the sale of an asset by the vendor and the leasing back of the same asset (transfer under a finance lease agreement) to the same vendor. The amounts of lease payments and the sale price are usually interdependent as they are negotiated as a package. The treatment of these transactions depends upon the type of lease involved. If a leaseback transaction of a sold asset by its contents and economic substance results in a finance lease, any profit from the sale of the asset shall not be immediately recognized in the period of the sale. Instead, it shall be deferred and amortized over the lease term. The economic substance of a finance leaseback agreement can be compared to financing with collateral whereby the lessor lends cash to the lessee using acquired and leased assets as collateral. If a leaseback transaction of a sold asset by its contents and economic substance results in an operating lease, any profit from sale shall be recognized applying the same accounting policies as that applicable to other sales transactions of non-current assets, i.e. the profit or loss is recognized immediately (Thomas, 2005; Adekunle, 2005; Clark, 2008).

Leveraged leasing

This is a form of financial leasing in which the lessor borrows part of the purchase price of the leased assets, using the lease contract as a security for the loan (Brealey & Myers, 2002). In this form of lease, the lessor borrows an amount of the financing necessary for the purchase of the asset. Unlike the other types of leases, where there are two parties involved (the lessor and the lessee), in leveraged leasing there is another party. The third party has the role of the lender, who helps in the financing necessary for the acquisition of the asset that will be leased. The lessor has the same role as in the previous types of leases mentioned. The loan is collateralized with a mortgage over the asset as well as the legal transfer of the lease and the payments. Additionally, the lessor can guarantee for the debt. In some lease terms the lessee issues bills of exchange that are guaranteed from the lessor. This guaranty reduces the risk in which the buyers of the bills of exchange (borrowers) are exposed reducing therefore the cost of borrowing (Day, 2000).

2.1.5 Benefits of lease financing

Several authors have considered reasons why leasing may be considered preferable to financing assets by non-leasing debt alternatives. These reasons are grouped into seven categories underscored by Day (2000) and Thomson (2005).

Accounting treatment: International accounting standards (IAS-17) require the capitalization of only finance leases. Thus, operating leases could be favoured for their 'off statement of financial position' nature as rental payments are expensed in the statement of profit or loss account, with neither the leased asset nor leased liability appearing on the statement of financial position (Thomson, 2005). In the other hand capitalizing operating lease may increase the earnings before interest, taxes depreciation and administration (EBITDA) of the firms making their financial position stronger.

Tax savings: In the IAS 17, legal ownership and the right to claim capital tax allowances on qualifying plant and machinery remains with the lessor. If the lessor can make better use of capital tax allowances than the lessee, then potential lessees may be enticed with the offer of lower rental payments (Day, 2000 and Thomson, 2005). Tax

Original Article

savings on behalf of the lessee may still arise, even though an asset does not qualify for capital allowances because lease rentals paid are tax deductible. Although the increased cost of lease rentals, imposed to compensate the lessor for the absence of capital allowances, may reduce the tax savings, leasing can still potentially be beneficial. This is especially true if the lessee makes rental payments in respect of commercial buildings/offices and if the lessor is of non-tax paying status (Thomson, 2005).

Borrowing Capacity: Leasing might be used to extend a firm's capacity for borrowing if managers perceive that leasing obligations consume less or even no debt capacity compared to non-leasing debt alternatives (Day, 2000). Further, lease agreements may contain less restrictive covenants and thus have less impact on obtaining future finance (Thomson, 2005 and Day, 2000).

Repayment: Leasing may be favoured in terms of cash flow considerations. It provides 100% finance for an asset with a limited deposit of a rental payment in advance. Lease agreements are flexible, incorporating features that enable repayment to accommodate fluctuations in cash flows (Thomson, 2005 and Day, 2000).

Risk Sharing Reasons: Operating leases are said to reduce the risk of obsolescence and provide the flexibility to obtain modern or upgraded equipment (Day, 2000). If lessors have a diversified portfolio, then the cost of obsolescence can be borne more cheaply, reflected in the cost of rental payments. Lessors may be in a better position to acquire standardized assets, which they supply to numerous lessees, through bulk purchase (Thomson, 2005 and Day, 2000).

2.1.7 Corporate financial performance

Financial performance is firm's ability to generate resources, from its daily procedures, for a certain time period. Financial performance may also refer to the firm's ability to make good use of their resources in an effective and efficient manner for achievement of the firm's objectives and goals (Asimakopoulou, Samitas & Papadogonas 2009). performance is the firm's ability to efficiently operate, be more profitable, to grow and survive for a long period of time. All organizations strive to utilize its resources effectively to achieve a high-performance level especially in financial terms. Thus, financial performance is the outcome of any of many different activities undertaken by an organization.

Financial performance refers to the procedure of measuring in financial terms the outcomes of a company's strategies as well as actions. Van Horn (2005) defined financial performance as a personal degree in terms of how well firms can be able to use their assets from their main approach of businesses and produce incomes.

Financial performance therefore measures a company's earnings, incomes, appreciation in value which is demonstrated by the increase in the unit's share charge (Asimakopoulou, Samitas & Papadogonas, 2009). Measures of financial act can be categorized into two classes, that is, accounting revenues as well as investor earnings. According to Salam (2013) financial performance is the appropriate way of any policy. In analogy with all these definitions of performance, the financial performance of a company can therefore be described as the result of a company's plan or an assessment of how fit a company has or is succeeding in reaching its aims. Financial performance as a personal measure in terms of how fit companies can be able to use their assets from their main mode of businesses and produce proceeds is the chief features of each company's/organization's.

In this thesis, financial performance is measured as Returns on Assets (ROA). ROA as a measure of financial performance is the result of dividing profit before tax (PBT) by total asset. Therefore, increase in lease finance (especially finance lease) increases the amount of business total asset. Profitability ratios such as return on assets

Original Article

(ROA) is an important performance measurement tool used to assess the companies' ability to generate income when compared to the expenses or other financing instruments, such as assets and equities. The capitalisation of operating lease will have an impact on the profitability ratios as evidenced in the studies conducted by Branswijck et al., (2011). The income effect (include interest and depreciation expenses) of lease capitalisation should not be ignored as mentioned in Branswijck et al., (2011), because the changes in profitability ratios such as the ROA will be affected by the income effect. The study reveals that the fully-adjusted ROA (include both balance sheet and income effect) is higher than the partly adjusted ROA while both figures remain below unadjusted ROA.

2.1.8 Lease financing and financial performance

The significant idea of the financial market is the lease which is the contract where one party gets a long-term leasing contract (lessee) and other party (lessor) receives a protected long-term debt, guaranteed of fixed outlays for a stated period. Equipment funding gives substitute source of capital as well as cash in the acquirement of business acute assets and equipment. Equipment funding allows companies to acquire kit at a fixed rate, for a fixed period of time, without having to procure the equipment from money thus not affecting the working capital (Myers & Majluf, 2002). This is because leasing improves performance in financial perspective by reducing leverage level which improves the firm's working capital (Tarus, 2007).

Non-cancellable long-term leases usually play a crucial role in mitigation of the firm's underinvestment which arises due to debt overhang. Underinvestment issue is mitigated because of legal standing of leases to all outstanding fixed claims. The main complication to actual domestic investment, economic development, ultimately poverty reduction and expansion is admittance to inexpensive and consistent funding and credit (Brealey & Myers, 2003). By segregating claim on new project's cash flows, leasing, unlike debt, limits wealth transfer from stockholders to existing bondholders. This in turn enables firms to undertake positive NPV projects which are otherwise foregone with unsecured debt financing.

According to Eisfeldt and Rampini (2009) leasing enhances debt capacity of constrained firms, and therefore firms lease to preserve liquidity which improves their working capital. Therefore, leasing is no longer just a financing tool, but it can be used by constrained firms to increase investment input capital and expand production functions. Unlike lessees, owners of real assets, who retain the residual interest, take advantages of rises in collateralized asset values to increase investment in the production capacity. Abor (2007) assert that an increase in operating lease leads to an increase in firm performance as measured by ROA. Similarly, Salam (2013) posits a positive relationship between firm performance (measured as ROA and ROE) and lease financing.

2.2 Theoretical framework

2.2.1 Agency theory

The theory of agency propounded by Jensen and Meckling (1976) exists where the principal who cannot manage his business delegates the authority to an agent to do so on their behalf (Stulz & Herb, 1985). The problem with agency arises immediately when the desires and the goals a principal and the agent conflict. It is very tough and difficult or rather expensive for a principal to always monitor the work of his/her agent to ensure that the agent works and makes some decisions on the best interest of the principal. Thus, the theory of agency is help in solving the principle and the agent issues with an aim of ensuring a better relationship between them (Smith & Warner, 1979). This theory is based on the notion that the interests of shareholders and the managers are not aligned in a

Original Article

perfect away to enable them work for a common goal which is achieving the organizational set goals and objectives.

The theory of Agency suggests that agents who in this case are the managers prefers to have a high level of cash flow even if there exists no profitable investment opportunity so that the funds can be used for managers own benefits other than for enhancing or increasing the firms' value (Smith & Warner, 1979). The Jensen and Meckling (1976) agency theory explain that decisions on capital structure must aim at reducing the cost related to agency by reducing equity in capital structure. This is done by increasing the debt financing hence increasing the market value of the firm as well as reducing the conflicts that may exist between managers of a firm and shareholders. The main theoretic clarification for connection between possession structure as well as effectiveness is constructed on agency concept, first formalized by (Jensen & Meckling, 1976). Agency conflicts can arise between shareholders as well as bondholders and/or between directors as well as stockholders and can cause asset replacement and underinvestment. Smith and Warner (1979) affirm that non-cancellable long-term leases can help in mitigation of asset substitution problem because non-cancellable lease commits lessee to use leased asset over a life of a lease contract (Myers, 1977).

2.3 Empirical review

Atseye, et al (2020) examined the causal relationship between lease financing and profitability of Nigerian quoted conglomerates for the period spanning 2012- 2017. The study focused on 6 conglomerates that are quoted on the Nigerian Exchange Group as at 2017. Data were collated from published accounts of the affected companies. Data were analysed using descriptive and pooled ordinary least square multiple regression statistics. Unit root test was conducted using Augmented Dickey–Fuller. Estimated panel results indicated a negative and insignificant impact of fixed assets turnover on return on assets (ROA), lease financing (LFN) had a positive and insignificant impact on ROA, and long-term debt ratio had a negative and insignificant impact on ROA. Firm size was used to control possible problem of non-linearity and heteroscedasticity. Based on the results of our study, leasing option was recommended as one of the sources of debt financing to boost the capital of Nigerian conglomerates to enable them to absorb losses, multiply fixed assets and grow continuously, thus providing employment and income in terms of tax revenue, profits, dividends, and wages and salaries to households for national growth and development.

Olweny and Muthoni (2019) investigated the effect of lease finance conditions on the financial performance of small and medium sized enterprises in Kenya. The target population of this study was 308 SMEs from Nairobi County and in different sectors of the economy. The stratified random sampling technique was used to get the sample size of 102 respondents. A correlation test was conducted and the study employed the use of P-Values, T-Tests and Chi Square tests to determine the extent to which the variables are related and to test the assumption of normality. In order to test the hypotheses of the regression model that there is no significant relationship between lease finance conditions and financial performance of small and medium enterprises in Kenya, Analysis of Variance (ANOVA). The study recommended that SMEs should adopt flexible charges since it will attract a wider clientele which will in turn increase profitability and reduced capital expenditure in their operations.

Asuquo and Anyadike (2018) conducted a study on the effect of lease financing on corporate performance of deposit money banks in Nigeria. The study employed the Ex-post facto research design while the number of banks sampled were 15 deposit money banks listed on the Nigerian exchange Group. The data for this study were

Original Article

collected from the annual reports of the various Deposit Money Banks through on-line and manual retrieval methods for the years 2005 - 2016. The data were analyzed using Ordinary Least Square multiple regression technique.

The findings from this study revealed that there is positive and significant relationship between finance lease; operating lease; equity finance; debt finance and corporate performance respectively. The study recommended that Equipment Lease Association of Nigeria should carry out more sensitization on the importance of lease financing to encourage those banks seeking for funds to use either finance lease or operating lease taking into consideration the benefits of the two methods in terms of improved corporate performance.

Bello, et al (2016) examined the impact of lease financing on financial performance of Nigerian oil and gas industry. The data for the study was collected from annual reports and accounts of 6 sampled companies in the Nigerian Oil and Gas industry, that are engaged in lease financing and were also listed on the Nigerian Exchange Group Plc not later than January, 2005 out of ten (10) companies that makes up the population of the study. Robust OLS regression analysis was used to analyze the impact of lease financing on return on assets (ROA). The results of the study revealed that lease financing has significant impact on financial performance (ROA) of oil and gas companies in Nigeria. The study recommended that firms should embrace lease financing as a method of financing their operations as evidence suggests that value is added through the use of lease financing.

Islam, et al (2016) investigated the impact of lease finance on productivity, profitability and employment among small firms in Bangladesh, studying specifically the United Leasing Company. The population of the study is all the manufacturing enterprises taking loan from United Leasing Company Ltd of Jessore office. The multistage sampling method was adopted in determining the number of units to study. There are however clients who reside and operate in Jessore, Satkhira or Khulna, Magura, Faridpur, Zhenaidah and Narail districts. The three districts Khulna Jessore Satkhira have 78 manufacturing ventures. Among them 16 units were used as sample for the study. Primary data were acquired through respondent survey, conversation to ULC official, new recruits and trained officers in Jessore office ULC while Secondary data was gathered from extensive literature study collected from online pdf articles, reports, and web sites. The study revealed that among 65% responded measured impact of their latest lease agreement on around 2000 families for being the retailer, dealer or agent for outputs of those FIRMS. More than 200 jobs were created in those manufacturing unit with a mean of 13.25 jobs per FIRM with a standard deviation of 7. 262. In case of productivity measurement on average FIRMS responded 22% productivity rise with a standard deviation of 7.5%. It is notable that the big deviation relates probably to the unique context of the FIRMS. Most of the FIRMS were representing one unique sample of its own business chain. About 13% profitability rise was observed on the later years of the lease agreement with a standard deviation of 3.2%. None of the organizations recognized negative growth. Some of the FIRMS had small change around 13% while some reported big as much as 57%. The study recommended the adoption of this kind of financing policy, as We can also assume that this sort of financing to small FIRMS will certainly enhance economic activity in rural Bangladesh.

Kibuu (2015) conducted research on the effects of lease financing on the financial performance of corporations registered at Nairobi Security Exchange (NSE). Data for only 33 firms which was available and complete for the period under study was used. Secondary data from annual financial reports and financial statements was poised for the organizations for the period 2010 – 2014. ROA was taken as the dependent variable while lease finance,

Original Article

size of the firm and liquidity was taken as the independent variable. The study concluded that lease financing had positive, but insignificant effects on ROA which was used as the proxy of financial performance.

Kurfi (2015) examine the impact of lease financing on liquidity position of Nigerian manufacturing firms for the period 2003 to 2012. The study analyses the data obtained from the annual financial statements of the sampled firms using Pearson moment correlation and regression analyses. The study revealed that lease financing does not improve the liquidity position of Nigerian manufacturing firms. The study found out evidence that operating leases represent a major source of finance for many companies generally and more specifically for companies in the retail sector. Recognition of operating leases on the lessee's statement of financial position would have a significant impact on performance measures, especially gearing and liquidity.

Muumbi (2014) examined the effect of lease financing on the financial performance of all firms listed in Nairobi Stock Exchange between 2007 – 2013. The target population of the study was all the 61 companies listed in Nairobi Securities Exchange while the sample size of this study will be all the 14 companies listed in NSE that are using lease financing. The hypothesis of the study was tested using regression while data was analysed by the use of correlation. The study found that there is a positive significant relationship between lease financing and Return on Equity. The study also found out that lease financing is positive when it is used to generate a return on assets that is higher than the before-tax cost of debt, thereby enhancing the return on equity. Furthermore, the findings show that there is a positive correlation between lease financing and Return on Equity. The study recommended that the government of Kenya and policy makers should formulate policies that would increase the number of lessors in Kenya.

Munene (2014) examined the effect of lease financing on the financial performance of companies listed at the Nairobi securities exchange. The study adopted descriptive research design. The population of the study was all the 62 listed companies in the NGX, while the sample size were 30 firms, whose secondary data was collected for the period 2009 – 2013 from the financial statements. Data was analyzed using Statistical Package for Social Science (SPSS) version 22. Regression analysis was conducted on the data set to determine the effect of leasing on the ROA for the firms listed at the NGX. The study revealed that lease financing and size of the firm had negative effects on ROA, while liquidity and leverage had positive effects on ROA all significant at 95% degree of confidence. The study recommended that firms should be careful with the use of lease financing as a method of financing their operations as evidence suggests that no value is added through the use of lease financing. However, some evidence suggested a negative relationship between lease financing and ROA which may suggest that lower levels of lease financing could be acceptable.

Salam, (2013) examined the effects of lease finance on the financial performance of Small Medium Enterprises (SME) located in Bangladesh. Secondary data were obtained from about 250 SMEs, and the hypotheses tested using both fixed effect and random effect logit regression model. The study established that firms performance depend on lease finance activities, signifying that SMEs in Bangladesh should be consistently involved in their lease finance practices because lease finance has a momentous impact on improving their financial performance. It was concluded that leasing is vital in improving performance of businesses.

Jabbarzadeh, et al (2012) studied the effect of off-balance sheet leases on both profitability and leverage ratios of 45 companies selected from the manufacturing Industry, between 2001-2010. Multivariate regression analyses were employed in the study analyses, with both fixed and random effects applied. The results of the study using

Original Article

the best model- fixed effect model indicated that off-balance sheet financing do not increase profitability and leverage ratios of businesses. The study concluded that off balance sheet leases negatively affect the corporate performance of firms.

Hassan (2009) examined the impact of finance lease on the profitability of Nigerian banks from the period 2001-2008. The study employed the use of OLS regression to analyse the data obtained from annual financial statements of 25 Nigerian banks. The result of the study established that finance lease has significant positive impact on the profitability of Nigerian banks.

Samaila (2009) analysed the impact of finance lease on financial performance of conglomerate companies listed on the floor of the Nigerian stock exchange from 2005 to 2006. The data for the study was analysed using simple regression analysis and the result of the study established that finance lease have positive impact on the financial performance of conglomerate companies in Nigeria.

3.0 METHODOLOGY

Research design is the method that is utilized to conduct a research. This study adopted expostfacto research design, to examine the implications of lease financing on quoted non-financial companies' financial performance. The target population of this research included all nonfinancial companies quoted on the NGX, listed in the following industrial - sectors:

1.	Industrial goods sector	13
2.	Consumer goods sector	20
3.	Pharmaceutical Sector	8
4.	Construction Sector	7
5.	Conglomerate sector	5
6.	Oil and Gas sector	10
Total Population		63 Companies.

For the purpose of investigation into the lease implications of non-financial companies in the NGX, the sample size was the number of companies that have adopted and reported lease financing in their books of accounts in the past 10 years, between 2011-2020. Furthermore, based on the availability of data, 30 companies were qualified for sample inclusion based upon the manual inspection of financial statements, where the companies disclosed financial information regarding lease arrangements. Only the companies which disclosed any leasing information or have any visible tendency towards leasing have been used for the research. Thus, the sample design and framework employed the purposive sampling design. Through the sound judgement of the researcher, and the criteria adopted to pick companies from the six (6) sectors, 30 companies were selected for the study across the different non-financial industry sectors. A sectoral distribution of the selected companies includes the following:

SECTOR	NUMBER OF COMPANIES	COMPANY NAMES
CONGLOMERATE SECTOR	5	Chellaram Plc, John Holt Plc, Transcorp Plc, SCOA Plc, UACN Plc

Original Article

CONSUMER GOODS SECTOR	7	Cadbury Plc, Champions Plc, Flour Mills Plc, Guinness Plc, NeOLe Plc, PZ Plc, Unilever Plc
INDUSTRIAL GOODS SECTOR	6	Berger Paint Plc, CAP Plc, Dangote Cement Plc, Meyer Plc, Beta Glass Plc, Cutix Plc
OIL AND GAS SECTOR	5	Conoil Plc, Eterna Plc, Mobil Plc, Oando Plc, Total Plc
CONSTRUCTION SECTOR	3	Julius Berger Plc, UAC Plc, Uhomreit Plc
PHARMACEUTICAL SECTOR	4	Fidson Plc, Maybaker Plc, Neimeth Plc, Glaxosmith Plc
TOTAL	30	

Secondary data was used for this research. According to Cooper and Schindler (2003) secondary data is already collected data by researcher and readily available from other sources. Secondary data analysis is efficient and helps in saving time that would otherwise be spent gathering data and, predominantly in the case of measurable data, provides greater and higher quality databanks that will be impracticable for any investigator to collect on their own. For the purpose of this study, published yearly reports and financial statements for each of companies listed over the past 10 years (2011-2020) were analyzed and those that had reported use of lease finance were selected. Returns on Assets (ROA) was taken as dependent variable while operating leases and capital leases were taken as independent variables. Firm size was used as control variable in explaining the relationship between lease financing and financial performance of the 30 non-financial companies. The data were sourced and collected from Audited Published Financial Statements and Annual Reports for the periods between 2011-2020. To test the formulated hypotheses, the model specified is expressed below. The model is tested across all the six (6) sectors sampled in the study. The model was also tested in a pooled panel data that consolidates all sectors. Thus, 7 regressions were ran using the model specified below:

$$ROA_{it} = \beta_0 + \beta_1 OL_{it} + \beta_2 CL_{it} + \beta_3 CON_{it} + e_{it} \quad \dots \quad 1 \text{ Where:}$$

ROA denotes Returns on Assets

OL denotes operating leases

CL denotes capital leases

CON denote the control vector measured as firm size

β_0 denotes intercept or constant

$\beta_1 - \beta_3$ denote unknown coefficient to be estimated e denotes error term.

it , denotes industry sector and time period (panel data) The significance was tested using t-test and F-test. Data analysis was performed using EViews 10. Descriptive statistics was performed to describe the

Original Article

demographic statistics of the variables – such as the mean, standard deviation, minimum, maximum, kurtosis, skewness, Jarque-Bera, and the normality of the data. Correlation Analyses were performed to test the association between relationship between all variables in the study. The presence of multicollinearity was tested, as well as serial correlation and heteroscedasticity. To solve the presence of serial correlation and heteroscedasticity, the Panel Generalized Least Square (GLS) Regression techniques was adopted in analysing the effects of leasing financing on firms’ performance was employed to test the hypotheses. Table 3 Measurement of Variables

Variables	Definitions	Apriori Expectation
DEPENDENT VARIABLES		
Returns on Assets (ROA)	ROA is measured as net income before interest and taxes (EBIT) deflated by average assets	Dependent variable
INDEPENDENT VARIABLES		
Capital Lease (CL)	It is the value of lease assets or lease liability in the statement of financial position	It should be positive for ROA
Operating lease (OL)	This is the value of lease expense reported in the Income Statement.	It should be positive for ROA.
CONTROL VARIABLES		
Firm Size (FSIZE)	FSIZE is measured as natural log of total assets	It should be positive for ROA.

4.0 DATA ANALYSES AND RESULTS 4.1 Descriptive Analysis

Table 4.2.1:
Descriptive Statistics of variables for all firms

					ROA	OL	CL
					FSIZE		
Mean	0.039	1378	6104	11.69			
Median	0.028	855.0	4552	12.01			

Original Article

Maximum	0.510	6967	18166	13.32
Minimum	-0.020	72.40	569.0	8.825
Std. Dev.	0.054	1358	4002	1.114
Skewness	5.453	1.541	0.959	-0.444
Kurtosis	42.056	5.149	2.940	2.034
Jarque-Bera	20554.14	176.50	46.024	21.541
Probability	0.000	0.000	0.000	0.000
Obs.	300	300	300	300

ROA=Returns on Assets, OL=Operating leasing, CL=Capital Leasing, FSIZE=Firm Size

The table 4.2.1 revealed that the mean value of returns on assets (ROA) among all the thirty (30) selected companies quoted on the Nigerian Stock Exchange between 2011-2020, was 0.039, with a minimum value of -0.020 and maximum value of 0.510. The values indicate that on average, companies earn about 4 percent on their assets, with maximum earnings on assets being 51 percent, with a minimum value of about 2 percent loss on assets. The standard deviation value of 0.054 indicates that the ROA data does not deviate from the mean. The skewness and kurtosis values of 5.09 and 42.06 indicate that ROA data have long right tails and are peaked (leptokurtic). This implies that ROA data has a high and positive distribution in the study period, indicating that majority of the ROA of firms in the study are positive. The results also suggest that sampled firms in the study earn low to medium profits before taxes (PBT), used in the computation of ROA.

Operating leases (OL) have a mean value of 1378, with a minimum value of 72.40 and maximum value of 6967. The values indicate that on average, the companies kept Operating leases of about 1 billion 378 million naira, with the lowest Operating leases in the period studied being 72.4 million and the maximum Operating leases being 6 billion, 967 million naira. The standard deviation value of 1358 indicates that the OL data have a wide deviation or spread from the mean. The skewness and kurtosis values of 1.541 and 5.149 indicate that OL data have long right tails and are peaked (leptokurtic). This implies that OL data has a high and positive distribution in the study period, indicating that all the firms in the sample engaged in Operating lease.

Capital lease (CL) has a mean value of 6104, with a minimum value of 569.0 and maximum value of 18166. The values indicate that on average, the companies held capital lease of about 6 billion 104 million naira, with the lowest capital lease held in the period amounting to 569 million and the maximum capital lease held being 18 billion and 166 million naira. The standard deviation value of 4002 indicates that the CL data have wide deviation or spread from the mean. The skewness and kurtosis values of 0.959 and 2.940 indicate that CL data have long right tails and are not peaked (mesokurtic). This implies that CL data has a high and positive distribution in the study period, indicating that all the firms in the sample held moderate of capital leases.

Firm size (FSIZE) has a mean value of 11.69, with a minimum value of 8.825 and maximum value of 13.32. The values indicate that on average, the companies had a size of about 11.69 (which represents about 3304-million-naira worth of total assets. The standard deviation value of 1.114 indicates that the FSIZE data have no wide

Original Article

deviation or spread from the mean. The skewness and kurtosis values of -0.444 and 2.034 indicate that FSIZE data have long left negative tails and are not peaked (platykurtic). This implies that all firms sampled in this work are relatively big.

Table 4.2.2:

Descriptive Statistics of firm variables based on respective Industries / Sectors

	ROA	OL	CL	FSIZE
PANEL A: CONSUMER GOODS FIRMS (7 Companies)				
Mean	0.044	1677	4432	4.89
Maximum	0.489	6442	14241	5.55
Minimum	0.000	92.60	569.0	3.83
Std. Dev.	0.076	1654	3457	0.50
PANEL B: CONGLOMERATE FIRMS (5 Companies)				
Mean	0.023	974.4	4110	12.85
Maximum	0.057	2461	6220	13.32
Minimum	0.004	289.0	2614	12.43
Std. Dev.	0.0118	499.8	834.9	0.266
PANEL C: INDUSTRIAL GOODS FIRMS (6 Companies)				
Mean	0.036	2260	8663	12.22
Maximum	0.150	6967	17240	13.16
Minimum	-0.020	386.0	2641	9.94
Std. Dev.	0.027	1558	4236	0.92
PANEL D: OIL AND GAS FIRMS (5 Companies)				
Mean	0.064	926.8	8032	11.41
Maximum	0.510	4201	14624	12.61
Minimum	0.001	72.40	1190	9.983
Std. Dev.	0.079	975.6	3299	0.880
PANEL E: CONSTRUCTION FIRMS (3 Companies)				
Mean	0.046	1175	6987	11.20
Maximum	0.235	4628	18166	13.15

Original Article

Minimum	0.003	92.90	1669	10.10
Std. Dev.	0.045	1199.76	5561	1.158

PANEL F: PHARMACEUTICAL FIRMS (6 Companies)

Mean	0.019	752.7	4607	10.87
Maximum	0.075	3861	12896	11.94
Minimum	-0.009	96.80	1428	9.549
Std. Dev.	0.0190	896.2	3021	0.590

ROA=Returns on Assets, OL=Operating lease, CL=Capital Lease, FSIZE=Firm Size.

To provide cross-section discussion and industry comparative analyses, the descriptive statistics of firms based on their industrial classification is performed in Table 4.1.2 above.

In Panel A, the average ROA of firms in the Consumer goods sector is 0.044, indicating that on average, ROA is about 4.4 percent in the sector. The maximum ROA in the sector is 48.9 percent, with a minimum ROA of 0.00 percent. The results indicate that firms in the Consumer goods sector made only positive returns on their assets, showing no evidence of loss during the period studied.

Operating leases (OL) averaged a value of 1677 million naira, with maximum and minimum values of 6442 million and 92.6 million naira respectively. The standard deviation of 1654 indicates that the OL held by firms in the Consumer goods sector were widely spread away from the mean, which suggest that different firms in the consumer goods sector hold different values of OL, which are variant. Capital leases averaged a value of 4432 million naira, with maximum and minimum values of 14241 million and 569.0 million naira respectively. The standard deviation of 3457 indicates that the CL held by firms in the Consumer goods sector widely deviated from the mean. The firms are generally medium sized firms (with average FSIZE=4.89), with average age of 59.92 years.

In Panel B, the average ROA of firms in the Conglomerate sector is 0.023, indicating that on average, ROA is about 2.3 percent in the sector. The maximum ROA in the sector is 5.7 percent, with a minimum ROA of 0.4 percent. The results indicate that firms in the Conglomerate sector made extremely low returns on their assets within the ten-year period of the study. Operating leases (OL) in the Conglomerate sector averaged a value of 974.4 million naira, with maximum and minimum values of 2461 million and 289 million naira respectively. The standard deviation of 499.8 indicates that the OL held by firms in the Conglomerate sector deviated from the average values. Capital leases averaged a value of 4110 million naira, with maximum and minimum values of 6220 million and 2614 million naira respectively. The standard deviation of 834.9 indicates that the CL held by firms in the Conglomerate sector widely deviated from the mean. The firms in the sector are generally very large sized firms (with average FSIZE=12.85), with average age of 53.10 years. The large size of the firms suggests their dependence on capital or finance lease over operating leases.

In Panel C, the average ROA of firms in the Industrial goods sector is 0.036, indicating that on average, ROA is about 3.6 percent in the sector. The maximum ROA in the sector is 15 percent, with a minimum ROA of negative

Original Article

2 percent. The results indicate that firms in the Industrial goods sector made both positive and negative returns on their assets within the ten-year period of the study. Operating leases (OL) in the Industrial goods sector averaged a value of 2260 million naira, with maximum and minimum values of 6967 million and 386.0 million naira respectively. The standard deviation of 1558 indicates that the OL held by firms in the Industrial goods sector deviated from the average values. Capital leases averaged a value of 8663 million naira, with maximum and minimum values of 17240 million and 2641 million naira respectively. The standard deviation of 4236 indicates that the CL held by firms in the Industrial goods sector widely deviated from the mean. The firms in the sector are generally very large sized firms (with average FSIZE=12.22), with average age of 43.50 years. The large size of the firms suggests their dependence on capital or finance lease over operating leases.

In Panel D, the average ROA of firms in the Oil and gas sector is 0.064, indicating that on average, ROA is about 6.4 percent in the sector. The maximum ROA in the sector is 51 percent, with a minimum ROA of 0.1 percent. The results indicate that firms in the Oil and gas sector made high positive returns on their assets within the ten-year period of the study, which do not deviate from the mean (SD=0.079). Operating leases(OL) in the Oil and gas sector averaged a value of 926.8 million naira, with maximum and minimum values of 4201 million and 72.40 million naira respectively. The standard deviation of 975.6 indicates that the OL held by firms in the Oil and gas sector deviated from the average values. Capital leases averaged a value of 8032 million naira, with maximum and minimum values of 14624 million and 1190 million naira respectively. The standard deviation of 3299 indicates that the CL held by firms in the Oil and gas sector widely deviated from the mean. The firms in the sector are generally very large sized firms (with average FSIZE=11.41), with an average age of 28.30 years. The large size of the firms suggests their dependence on capital or finance lease over operating leases.

In Panel E, the average ROA of firms in the Construction sector is 0.046, indicating that on average, ROA is about 4.6 percent in the sector. The maximum ROA in the sector is 23.5 percent, with a minimum ROA of 0.3 percent. The results indicate that firms in the Construction sector made moderate positive returns on their assets within the ten-year period of the study, which do not deviate from the mean (SD=0.045). Operating leases (OL) in the Construction sector averaged a value of 1175 million naira, with maximum and minimum values of 4628 million and 92.9 million naira respectively. The standard deviation of 1199.8 indicates that the OL held by firms in the Construction sector deviated from the average values. Capital leases averaged a value of 6987 million naira, with maximum and minimum values of 18166 million and 1669 million naira respectively. The standard deviation of 5561 indicates that the CL held by firms in the Construction sector widely deviated from the mean. The firms in the sector are generally very large sized firms (with average FSIZE=11.20), with an average age of 36.83 years. The large size of the firms suggests their dependence on capital or finance lease over operating leases.

In Panel F, the average ROA of firms in the pharmaceutical sector is 0.019, indicating that on average, ROA is about 1.9 percent in the sector. The maximum ROA in the sector is 7.5 percent, with a minimum ROA of negative 0.9 percent. The results indicate that firms in the pharmaceutical sector made low positive and negative returns on their assets within the ten-year period of the study, which do not deviate from the mean (SD=0.019). Operating leases (OL) in the pharmaceutical sector averaged a value of 752.7 million naira, with maximum and minimum values of 3861 million and 96.8 million naira respectively. The standard deviation of 896.2 indicates that the OL held by firms in the pharmaceutical sector deviated from the average values.

Original Article

Capital leases averaged a value of 4607 million naira, with maximum and minimum values of 12896 million and 1428 million naira respectively. The standard deviation of 3021 indicates that the CL held by firms in the pharmaceutical sector widely deviated from the mean. The firms are generally very large sized firms (with average FSIZE=10.87), with an average age of 32.75 years. The large size of the firms suggests their dependence on capital or finance lease over operating leases.

Overall, the average results of variables studied indicate that Oil and gas sector have the highest ROA (0.064), while pharmaceutical sector had the lowest ROA (0.019). Consumer goods firms and Construction firms earn about the same average ROA (0.044 and 0.046 respectively). Industrial goods firms held the most Operating leases (2260 million naira), followed by Consumer goods firms (1677 million naira). Pharmaceutical firms held the least Operating leases in the period studied (752.7 million naira). Industrial goods firms also held the highest amount and value of capital lease Industrial goods firms (8663 million naira), followed by Oil and Gas firms (8032 million naira). There appears to be high value of Capital leases held by firms in the respective sectors.

4.2.2 Correlation analyses

The Pearson correlation matrix results described in Table 4.2.3 below relates to the association between all variables employed in the study for all thirty (30) quoted companies between the period 2011-2020. The correlations among variables for firms in each of the six sectors is also presented in Table 4.2.4. The tables report Pearson correlations and their p-values.

Table 4.2.3:

Correlation Matrix Coefficients of Variables for All firms

		OL	CL	FSIZE	ROA
ROA	1.00				
OL	0.12 (0.042)	1.00			
CL	0.12 (0.035)	0.55 (0.000)	1.00		
FSIZE	-0.11 (0.066)	0.48 (0.000)	0.38 (0.000)	1.00	

ROA=Returns on Assets, OL=Operating lease, CL=Capital Leasing, FSIZE=Firm Size.

The correlation between returns on assets (ROA) and types of lease financing options in table 4.2.3 above revealed the following at 0.05 level of significance.

Returns on assets has a positive and significant relationship with Operating leases ($r=.12$, $p=0.042$), and positive and significant relationship with capital leases ($r=.12$, $p=0.035$). The results indicate that all the category of lease financing included in the study were positively related with the returns on assets, with the relationship between OP, CL and ROA being the same. Thus, operating leases and capital leases are related to returns on assets (ROA) by 12 percent, that is statistically significant at the 0.05 level of significance.

Original Article

The correlations between the types of lease financing revealed that Operating leases were positively and significantly associated with Capital leases ($r=.55$, $p=0.000$). The results indicate that all the types of leases were significantly related.

The correlations between control variables and all the variables of the study revealed that Firm size (FSIZE) is negatively and insignificantly associated with ROA ($r=-.11$, $p=0.066$), positively and significantly associated with OL ($r=.48$, $p=0.000$), and positively and significantly associated with CL ($r=.38$, $p=0.000$).

The correlations among the independent variables show no presence of multicollinearity, as no correlation is close to .80. Thus, there is no multicollinearity among all dependent variables. **4.2.3 Panel Effect Hausman Test**

Table 4.2.4:

Hausman Test of Panel Selection

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Chi-Square	125.98	210.04	109.21	77.89	90.12	101.10	198.77
Prob.	.000	.000	.000	.004	.001	.000	.000

The Hausman test was performed on the panel data to reveal the right panel effect to adopt. Researchers usually adopt the Hausman test (1978) to select between random. Effect model and fixed effect model, with the null hypothesis that the random effect model is preferred.

The results revealed the following chi-squares and their probabilities: Chi=125.98 ($p=.000$) for Consumer goods firms in Panel 1, Chi=210.04 ($p=.000$) for Conglomerate firms in Panel 2, Chi=109.21 ($p=.000$) for Industrial goods firms in Panel 3, Chi=77.89 ($p=.004$) for Oil and gas in Panel 4, Chi=90.12 ($p=.001$) for Construction firms in Panel 5, Chi=101.10 ($p=.000$) for Pharmaceutical firms in Panel 6. A chi-square value of 198.77 ($p=.000$) was found in the model that combines all firms in a 300 firm-year observation in Panel 7.

The results of the test revealed that the Panel Fixed effect model was preferred over the Panel Random Effect ($p<0.05$ for all models), as it resulted in better coefficients. Stated differently, since the prob. values of all the models are less than 0.05 level of significance, the null hypothesis of the Hausman test is rejected. Thus, the analyses of hypotheses were performed using panel fixed effect.

4.2.4 Heteroscedasticity likelihood ratio test

Table 4.2.5:

Heteroscedasticity Likelihood Ratio (LR) Test

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
LR Stat.	1332	1239	1008	1077	1112	1011	1298

Original Article

Prob.	.005	.003	.004	.003	.003	.002	.000
-------	------	------	------	------	------	------	------

The Heteroscedasticity test which tests whether the variance of the errors from a regression is dependent on the values of the independent variables. In statistics, heteroscedasticity happens when the standard deviations of a predicted variable monitored over different values of an independent variable or as related to prior time periods, are non-constant. It makes the coefficients less precise, which makes the coefficient estimates far away from the correct population value. The null hypothesis conjectures that there is homoscedasticity in the data.

The results revealed the following Likelihood ratios (LR) and their probabilities: LR=1332 (p=.005) for Consumer goods firms in Panel 1, LR=1239 (p=.003) for Conglomerate firms in Panel 2, LR=1008 (p=.004) for Industrial goods firms in Panel 3, LR=1077 (p=.003) for Oil and gas in Panel 4, LR=1112 (p=.003) for Construction firms in Panel 5, LR=1011 (p=.002) for Pharmaceutical firms in Panel 6. A Likelihood ratio value of 1298 (p=.000) was found in the model that combines all firms in a 300 firm-year observation in Panel 7.

The results of the test revealed that all p-values fall below 0.05 level of significance, indicating the rejection of the null hypothesis of the Heteroscedasticity LR test. Thus, the data used in model specification have heteroscedasticity. This was solved using the Feasible Generalized Least Square (FGLS) Regression estimator for individual sector models, and the Panel Corrected Standard Error (PCSE) regression estimator in the combined model (7).

4.2.5 Cross-Sectional Dependence Pesaran Test

Table 4.2.6:

Cross Section-Dependence Pesaran CD Test

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
PCD Stat.	9.92	3.35	10.72	11.50	7.89	5.59	4.47
Prob.	.003	.022	.002	.000	.004	.009	.0017

The serial correlation and Cross-sectional dependence in the panel data was tested using Pesaran CD test in table 4.2.7 above. Panel data can be subject to pervasive cross-sectional dependence, whereby all units in the same cross section are correlated. Pesaran's test is the most appropriate test to show the existence of such dependence problem. The null hypothesis of this test suggests that there is no cross-sectional dependence among the variables of the study.

The results revealed the following Pesaran CD values and their probabilities: PCD=9.92

(p=.003) for Consumer goods firms in Panel 1, PCD=3.35 (p=.022) for Conglomerate firms in Panel 2, PCD=10.72 (p=.002) for Industrial goods firms in Panel 3, PCD=11.50 (p=.000) for Oil and gas in Panel 4, PCD=7.89 (p=.004) for Construction firms in Panel 5, PCD=5.59 (p=.009) for Pharmaceutical firms in Panel 6.

Original Article

A PCD value of 4.47 (p=.002) was found in the model that combines all firms in a 300 firm-year observation in Panel 7.

The results of the test revealed that all p-values fall below 0.05 level of significance, indicating the rejection of the null hypothesis of the Pesaran CD test. Thus, the data used in model specification have cross-sectional dependence. This was also solved using the Feasible Generalized Least Square (FGLS) test in the sectoral models, and the Panel Corrected Standard Error (PCSE) Model in the combined model.

To deal with heteroscedasticity and cross-sectional dependence in the panel fixed effect data, the Panel Corrected Standard Error (PCSE) Regression estimation was performed to test the hypotheses of the study, since the period (10 years) is less than the cross-sections (30 Companies). The individual models across the respective industries were tested using the Feasible Generalized Least Square (FGLS) estimation.

4.3 Regression analyses

The regression results are reported using Feasible Generalized Least Square (FGLS) and the Panel Corrected Standard Error (PCSE) models in table 4.3.1 below. While the first six models (1-6) are estimated using FGLS, model 7 which is the overall model pooling all firms together was estimated using PCSE model. This estimation of these models corrects for the presence of serial correlation, heteroscedasticity and cross-sectional dependence of variables.

For the first six models, the Panel Fixed Effect Regression was estimated using FGLS because the time frame (T=10 years) exceeded the cross sections, number of firms in each sector (N=7, 5, 6, 5, 3, and 4) for Consumer goods, Conglomerate, Industrial, Oil and Gas, Construction and Pharmaceutical firms respectively. The last model (Model 7), was estimated using the PCSE because the total number of firms (N=30) exceeded the time frame (T=10 years).

Table 4.3.1:
Regression Analyses

$ROA_{it} = \alpha_0 + \alpha_1 OL_{it} + \alpha_2 LTL_{it} + \alpha_3 CL_{it} + \alpha_4 CON_{it} + e_{it}$								
		<u>Model 1</u>	<u>Model 2</u>	<u>Model 3</u>	<u>Model 4</u>	<u>Model 5</u>	<u>Model 6</u>	<u>Model 7</u>
C	Coeff.	0.186	0.395	0.233	0.570	0.160	0.250	0.424
	[Prob.]	[.017]	[.000]	[.022]	[.079]	[.249]	[.012]	[.000]
OL	Coeff.	0.017	-0.003	-0.006	-0.020	0.040	0.099	0.044
	[Prob.]	[.149]	[.427]	[.365]	[.231]	[.005]	[.024]	[.000]
CL	Coeff.	0.055	0.010	0.066	0.069	0.048	0.089	0.066
	[Prob.]	[.007]	[.046]	[.036]	[.022]	[.044]	[.030]	[.013]
FSIZE	Coeff.	-0.173	-0.024	-0.012	-0.075	-0.064	-0.067	-0.039
	[Prob.]	[.000]	[.001]	[.029]	[.000]	[.000]	[.000]	[.000]
R-Squared		.55	.82	.60	.64	.74	.68	.72
F-Statistics		6.96	19.69	3.19	7.76	13.38	8.32	20.51

Original Article

[Prob.(F-Stats)]	[.000]	[.000]	[.003]	[.000]	[.000]	[.000]	[.000]
Industry	Consu mer	Conglomer ate	Industri al	Oil & Gas	Construct ion	Pharma ceutical	Total Firms

An inspection of R-squared values of the models 1-7 in Table 4.3.1 above indicate that the independent variables jointly explain about 55 percent, 82 percent, 60 percent, 64 percent 74 percent, 68 percent and 72 percent of the variation in Returns on Assets. These R-squared results indicate that the independent variables of the study have predictive power over the dependent variable, and jointly explain a significant variance in ROA. The values exceed 10 percent threshold, making them viable predictors of the change in the dependent variable.

The F-statistic ratio and p-values of 6.96(p=.000), 19.69(p=.000), 3.19(p=.003), 7.76(p=.000), 13.38(p=.000), 8.32(p=.000), and 20.51(p=.000) for models 1-7 indicate that the models are statistically fit, and the variables specified are perfect in the FGLS and PCSE estimations employed to solve the problems of heteroscedasticity, serial correlation and cross-sectional dependence.

The results of the control variable regression revealed that firm size has negative effect on ROA in the Consumer Goods sector, with the effect being significant ($\beta = -.173$, $p = .000$). In the Conglomerate sector, firm size has negative and significant effect on ROA ($\beta = -.024$, $p = .001$).

In the Industrial sector, firm size has negative and significant effect on ROA ($\beta = -.012$, $p = .029$). In the Oil and Gas sector, firm size has negative and significant effect on ROA ($\beta = -.075$, $p = .000$). In the Construction sector, firm size has negative and significant effects on ROA ($\beta = .064$, $p = .000$). In the Pharmaceutical sector firm size has negative and significant effect on ROA ($\beta = -.067$, $p = .000$). In the pooled firm model, firm size has negative and significant effect on ROA ($\beta = -.039$, $p = .000$).

Overall, firm size employed as control variable in the research negatively affects ROA of quoted firms in Nigeria.

4.3.1 Test of hypothesis one:

Ho: Operating leases have no significant effect on the Returns on assets (ROA) of quoted nonfinancial companies in Nigeria

Hi: Operating leases have significant effect on the Returns on assets (ROA) of quoted nonfinancial companies in Nigeria

In the Consumer goods sector, Operating leases have positive and insignificant effect on returns on assets ($\beta = .017$, $p = .149$). In the Conglomerate sector, Operating leases have negative and insignificant effect on returns on assets ($\beta = -.003$, $p = .427$). In the Industrial goods sector, Operating leases have negative and insignificant effect on returns on assets ($\beta = -.006$, $p = .427$). In the Oil and gas sector, Operating leases have negative and insignificant effect on returns on assets ($\beta = -.020$, $p = .231$). In the Construction sector, Operating leases have positive and significant effect on returns on assets ($\beta = .040$, $p = .005$). In the Pharmaceutical sector, Operating leases have positive and significant effect on returns on assets ($\beta = .099$, $p = .024$).

The overall result in model 7 revealed that Operating leases have positive and significant effect on returns on assets of all pooled quoted firms sampled in the study ($\beta = .044$, $p = .000$). Since the p-value of the final model 7 is

Original Article

less than 0.05 level of significance, Hypothesis one null (Ho1) is therefore rejected. The study therefore endorses that Operating leases have significant effect on the Returns on assets (ROA) value of quoted non-financial companies in Nigeria.

4.3.2 Test of hypothesis two

Ho: Capital leases have no significant effect on the Returns on assets (ROA) of quoted nonfinancial companies in Nigeria.

Hi: Capital leases have significant effect on the Returns on assets (ROA) of quoted nonfinancial companies in Nigeria.

In the Consumer goods sector, capital leases have positive and significant effect on returns on assets ($\beta=.055$, $p=.007$). In the Conglomerate sector, capital leases have positive and significant effect on returns on assets ($\beta=.010$, $p=.046$). In the Industrial goods sector, capital leases have positive and significant effect on returns on assets ($\beta=.066$, $p=.036$). In the Oil and gas sector, capital leases have positive and significant effect on returns on assets ($\beta=.069$, $p=.022$). In the Construction sector, capital leases have positive and significant effect on returns on assets ($\beta=.048$, $p=.044$). In the Pharmaceutical sector, capital leases have positive and significant effect on returns on assets ($\beta=.089$, $p=.030$).

The overall result in model 7 revealed that capital leases have positive and significant effect on returns on assets of all pooled quoted firms sampled in the study ($\beta=.066$, $p=.013$). Since the p-value of the final model 7 is less than 0.05 level of significance, Hypothesis three null (Ho3) is therefore rejected. The study therefore reports that capital leases have significant effect on the Returns on assets (ROA) value of quoted non-financial companies in Nigeria.

4.4 Discussion of findings

The study finds that lease financing has positive impact on returns on assets of the companies sampled in this study.

Specifically, operating leases improve the performance of firms listed in the Nigerian Exchange Group (NGX). The coefficient show that a 1 million naira increase in Operating leases have an increasing effect of 4.4 percent on returns on assets. Long-term leases improve the performance of firms listed in the Nigerian Exchange Group (NGX). The coefficient show that a 1 million naira increases in long-term leases have an increasing effect of 2.3 percent on returns on assets. Capital leases improve the performance of firms listed in the NGX. The coefficient show that a 1 million naira increases in capital leases have an increasing effect of 6.6 percent on returns on assets. This result that revealed that lease financing positively and significantly impacts the profitability of quoted companies in Nigeria is corroborative of previous findings. Siam and Qutarishat (2007) found that leasing option has a positive impact on profitability. Hazan (2009) and Bello and Mustapha (2016) found similar results that lease financing positively affects profitability. The implication is that leasing conserves cash flows, provides cheaper option of holding and utilizing assets, does not affect other sources of borrowing, reduces capital involvement, and provides adequate money for operational and investment purposes. This prudent financing option can support a firm financial activity without reducing the profit on account of finance cost. This result is

Original Article

new and increases the knowledge gap. Judicious use of leasing to boost profitability is in line with the theoretical prediction by the traditional theorist.

It is known that leasing (especially capital lease) increases the amount of business assets. For that reason, the denominator for obtaining ROA may increase as lease increase, which may lead to the value of ROA to decrease. However, the positive effect of lease types on ROA suggests that the profit before taxes as a result of an increase in lease finance is more than the proportionate increase in the finance lease. Therefore, the findings of this research posit that the positive effect of finance leases on ROA of Nigerian non-financial quoted companies flows from a higher contribution of leases to profits, relative to lease contribution to total assets.

5.0 CONCLUSION AND RECOMMENDATION

The study concludes that lease financing has a significant impact on returns on assets of companies quoted on the Nigerian Exchange Group Plc. The work established that leasing suits the level of development of the Nigerian financial market and should be utilized as debt financing in order to boost the capital of firms for enhanced financial operation. Judicious application of debt enhances profitability, hence our recommendation of prudent use of debt in a firm's capital structure. The study finds clear evidence of a positive association between the operating leases, and capital leases and non-financial firms' profitability as measured by return on assets (ROA). As this evidence only appears in the Nigerian sample, all sub-samples of firms benefit from a heavy reliance on leases. The research concludes that positive effect of finance leases on ROA of Nigerian non-financial quoted companies is a result of higher contribution of leases to profits, than to assets components. Thus, lease financing creates higher profits for firms that hold leases. The study recommends the following based on the findings of the study:

1. Firms should embrace operating leases financing as a method of financing their operations in order to improve operating profits, as such leases do not utilize or deplete existing working capital of firms.
2. Firms should hold increasing capital leases as it helps increase revenue and operating income generated by expanded assets.

REFERENCES

- Abor, J. (2007). Debt policy and performance of SMES, evidence from Ghanaian and South African firms. *Journal of Risk Finance*, 8, 364-379.
- Adams, A. T., & Clarke, R. T. (2006). Stock market reaction to sale and leaseback announcements in the UK. *Journal of Property Research*, 13, 31-46.
- Adams, M., & Hardwick, P. (2008). Determinants of leasing among United Kingdom listed companies. *Journal of Applied Financial Economics*, 487-494.
- Adekunle, W. (2005). Risk default in the Nigerian leasing industry: In managing default in the leasing of Nigeria. *Leasing Today a Quarterly Newsletter of Equipment Leasing Association of Nigeria*. 6, 15-18.
- Asimakopoulous, I., Samitas, A., & Papadogonas, T. (2009). Firm specific and economy wide determinants of firm profitability: Greek evidence using panel data. *Journal of Managerial Finance*, 35(11), 930-939.

Original Article

- Asuquo, A., & Anyadike, C. B. (2018, November 4 – 6). Effect of lease financing on corporate performance of deposit money banks in Nigeria: 2005-2016 [Conference session]. 8th International Conference of Accounting and Finance Research Association, University of Calabar International Conference Centre, Calabar, Nigeria.
- Atseye, F. A., Mboto, H. W., & Lawal, S. G. (2019). Lease financing and profitability: Evidence from Nigerian quoted conglomerates. *International Journal of Economics and Financial Issues*, 10(1), 132 – 137.
- Barclay, M. J. & Smith, C. W. (2005). The priority structure of corporate liabilities. *Journal of Finance*, 50, 899-917.
- Baskin, J. (1989). An empirical – investigation of the pecking order hypothesis. *Financial Management*, 18(1), 26-35
- Beattie, V. A., Edwards, K. & Goodacre, A. (2000). The impact of constructive operating lease capitalization on key accounting ratios. *Accounting and Business Research*, 28(4), 233-254.
- Bello, U., Ahmad, H. S., & Aliyu, A. A. (2016). The impact of lease financial performance of Nigerian oil and gas industry. *Research Journal of Finance and Accounting*, 7(4), 2834.
- Bootle, R. (2002). Real estate in business - A waste of space? Royal Institution of Chartered Surveyors (RICS), London. <https://www.rics.org>
- Branswijck, D., Longueville, S., & Everaert, P. (2011). The financial impact of the proposed amendments to IAS 17: Evidence from Belgium and the Netherlands. *Accounting and Management Information Systems*, 10(2), 275-294.
- Brealey, A. & Myers, S. (2003). *Principles of corporate finance*. McGraw-Hill/Irwin.
- Brown, C. S. & Wyatt, A. R. (1983). Liabilities belong in a Footnote or do they not? *Georgia Journal of Accounting*, 1-15.
- Callimaci, A., Fortin, A., & Landry, S. (2011). Determinants of leasing propensity in Canadian listed companies. *International Journal of Managerial Finance*, 79(3), 259-283.
- Clark, T. (2008). *Leasing*. McGraw-Hill Book Company Limited.
- Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003). *Applied multiple regression/correlation analysis for the behavioural sciences*. Lawrence Erlbaum Associates.
- Cooper, D., & Schindler, P. S. (2003). *Business research methods*. McGraw-Hill Publishing Company.

Original Article

- Coughlan, J. (1980). Regulation, rents, and residuals. *Journal of Accountancy*, 58-66.
- Day, A. (2000). *The finance director's guide to purchase leasing, financial fines*. Prentice Hall.
- De Laurentis, G., & Mattei, J. (2009). Lessors' recovery risk management capability. *Journal of Managerial Finance*, 35(10), 860-873.
- Devaney, S., & Lizieri, C. (2004). Sale and leaseback, asset outsourcing and capital market impacts. *Journal of Corporate Real Estate*, 6(2), 118-132.
- Dhaliwal, D., Lee, H. S., & Neamitu, M. (2011). The impact of operating leases on firm financial and operating risk. *Journal of Accounting, Auditing and Finance*, 26(2), 151-197.
- Dieter, R. (1979). Is lease accounting working? *The CPA Journal*, 13-19.
- Donaldson, G. (1961). *Corporate debt capacity: A study of corporate debt policy and the determination of corporate debt capacity*. Harvard Publishing House.
- Duke, J.C., Franz, D., & Hsieh, S. (2012). Evaluating constructive lease Capitalization and off-balance-sheet Financing: An instructional Case with FedEx and UPS. *Accounting Perspectives*, 11(1), 57-65.
- Eisfeldt, A., & Rampini, A. (2009). Leasing, Ability to Repossess, and Debt Capacity. *Review of Financial Studies*. 22. 1621-1657.
- Ezzell, J. R., & Vora, P. P. (2001). Leasing versus purchasing: Direct evidence on corporation's motivations for leasing and consequences of leasing. *Quarterly Review of Economic and Finance*, 41, 33-47.
- Fahnestock, R. T. (1998). A qualitative analysis of the content of operating lease disclosure. *Journal of Oil, Gas, and Energy quarterly*, 4, 343-358.
- Fahnestock, R. T., & King, C. G. (2001). An evaluation of the impact of constructive operating leases on financial position and results of operations. *Journal of Accounting and Finance Research*, Summer, 39-52.
- Gall, M., Gall, J., & Borg, W. (2006). *Educational research: An introduction*. Allyn & Bacon Publishers.
- Hassan, S. U. (2009). The impact of finance lease on the profitability of Nigerian Banks. *Journal of Finance and Accounting Research*, 1(3).
- Imhoff, E. A., Lipe, R. C., & Wright, D. W. (1993). The effect of recognition versus disclosure on shareholder risk and executive compensation. *Journal of Accounting, Auditing & Finance*, 8(4), 335-368.

Original Article

- Imhoff, E. A., Lipe, R. C., & Wright, D. W. (1997). Operating leases: Income effect of constructive capitalization. *Journal of Accounting Horizons*, 11(2), 12-32
- Imhoff, E. A., Robert C. L., & David, W. W. (2004). Operating leases: Impact of constructive capitalization. *Journal of Accounting Horizons*, 5, 51-63.
- Imhoff, E., Lipe, R., & Wright, D. (1991). Operating leases: Impact of constructive capitalization. *Accounting Horizons*, 5(1), 51-63.
- Islam, M., Nasira, S., & Pritom, S. T. (2016). Impact of lease finance on productivity, profitability & employment in small manufacturing firms in Bangladesh: Study on united leasing company. *International Journal of Latest Research in Engineering and Technology (IJLRET)*, 2(6), 89 – 108.
- Jabbarzadeh, S. K., Motavasel, M., & Mohammed, R. S. (2012). The effect of off-statement of financial position financing on profitability and leverage ratios. *Business Intelligence Journal*, 5(1).
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- Kibuu, M. K. (2015). Effects of lease financing on the financial performance of Companies Listed in Nairobi Securities Exchange [Unpublished Research Project, the University of Nairobi].
- Kraemer, H., & Lang, F. (2012). The importance of leasing for SME finance. Working Paper 2012/15 EIF Research & Market Analysis, Luxembourg.
- Krishnan, V. S. & Moyer, R. C. (2008). Bankruptcy costs and the financial leasing decision. *Journal of Financial Management*, 23, 31-42.
- Krishnan, V.S., & Moyer, R. C. (2004). Bankruptcy costs and the financial leasing decision. *Journal of Financial Management*, 23, 31-42.
- Kurfi, A. K. (2003). *Principles of Financial Management*. Benchmark Publishers' Ltd.
- Kurfi, A. K. (2015). Lease financing and the liquidity position of Nigerian manufacturing firms. *Bayero International Journal of Accounting Research*, 2(1).
- Kyereboah-Coleman A. (2007). Corporate governance and firm performance in Africa: A dynamic panel data analysis. *International conference on corporate governance in emerging markets*. Sabanci University, Istanbul, Turkey.

Original Article

- Lasfer, M. (2007). On the financial drivers and implications of leasing real estate assets: The Donalsons-Lasfer's curve. *Journal of Corporate Real Estate*, 9(2), 72-96.
- Lasfer, M. A. & Levis, M. (2008). The Determinants of Leasing Decision of Small and Large Companies. *European Financial Management*, 4, 159-84.
- Lewis, C. M. & Schallheim, J. S. (1992). Are debt and leases substitutes? *Journal of Financial and Quantitative Analysis*, 27(4), 497-511.
- Mehran, H. (2009). CEO ownership, leasing, and debt financing. *Journal of Financial Management*, 28(2), 5-14.
- Miller, M. (1977). Leasing, Buying and the Cost of Capital Services. *Journal of Finance*, 31, 761-786.
- Modigliani, F., & Miller, M. H. (1963). Corporate income taxes and cost of capital: A correction. *American Economic Review*, (53), 433-443.
- Modigliani, F., & Miller, M. H. (1965). The cost of capital, corporation finance, and the theory of investment: Reply. *The American Economic Review*, 55(3), 524-527.
- Mugenda, O. M. & Mugenda, A. G. (2003). *Research methods: Quantitative and qualitative approaches*. Acts Press.
- Muhammad, J. K., Naveed, K., & Hammad, H. M. (2012). Factors influencing the profitability of leasing firms in Pakistan: Application of OLS and LOGIT model. *The American Review*, 48(3), 261-297.
- Munene, W. W. (2014). The effect of lease financing on the financial performance of companies listed at the Nairobi securities exchange [Unpublished M.Sc. thesis, Department of finance and accounting, School of Business, University of Nairobi].
- Muumbi, F. M. (2014). The effect of lease financing on the financial performance of all firms listed in Nairobi Stock Exchange [Master's thesis, University of Nairobi].
- Muumbi, F.W. (2014). Effects of lease financing on the financial performance of companies listed in Nairobi Securities Exchange [Unpublished Research Project, the University of Nairobi].
- Myers, S. C. (1977). Determinants of corporate borrowing. *Journal of Financial Economics*, 5, 147-175
- Myers, S. C. (1984). The capital structure puzzle. *The Journal of Finance*, 39(3), 574-592.
- Myers, S. C. (1984). The capital structure puzzle. *The Journal of finance*, 39(3), 574-592.
<https://doi.org/10.1111/j.1540-6261.1984.tb03646.x>

Original Article

- Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information those investors do not have. *Journal of Financial Economics*, 13, 187221.
- Myers, S. C., & Majluf, N. S. (2002). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 7(2), 187221.
- Ndu, E. (2004). Understanding the equipment product, leasing today, Lagos, Nigeria. *ELAN News Letter*, 6(2).
- Olweny, T., & Muthoni, J. K. (2019). Effect of lease finance conditions on the financial performance of small and medium sized enterprises in Kenya: A case study of Nairobi country. *International Journal of Recent Research in Social Sciences and Humanities (IJRSSH)*, 6(2), 124-131.
- Pandey, I. M. (2000). *Financial management*. Vikas Publishing House PVT Limited.
- Petersen, M. A., & Rajan, R. G., (1994). The benefits of lending relationships: Evidence from small business data. *Journal of Finance*, 49(1), 3-37.
- Salam, A. (2013). Effects of lease finance on performance of SMEs in Bangladesh. *International Journal of Science and Research*, 2(12), 2319 -7064.
- Samaila, I. A. (2009). Impact of finance lease on financial performance of conglomerate companies in Nigeria. *Nigerian journal of Accounting and Finance*, 1(1)
- Schallheim, J. S., Wells, K. S., & Whitby, R. (2007). A test of the substitution between debt and leases using sale-and-leaseback transactions. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1114882>
- Schmit, M. (2005). Is Automotive Leasing a Risky Business? *Finnace Franchise Association Review*, 26(2), 35-66.
- Siam, Z. & Qutaishat, M. (2007). The impact of financial leasing services to the financial performance of the companies rented decisions in Jordan. *studies*, folder, 34(1).
- Slotty, C. F. (2009). Fianacial constraints and the decision to lease: Evidence from German SME. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1216582>.
- Smith, C. W. & Wakeman, L. M. (1985). Determinants of corporate leasing policy. *Journal of Finance*, 45, 895-908.
- Smith, C. W. & Warner, J. B. (1979). On financial contracting: An analysis of bond covenants. *Journal of Financial Economics*, 7(5), 117-161.

Original Article

- Stiglitz, J. E. (1969). A re-examination of the Modigliani-miller theorem. *Journal of American Economic Review*, 59, 784-793.
- Stulz, R. M. & Herb J. (1985). An analysis of secured debt. *Journal of Financial Economics*, 14, 501-521.
- Tarus, K. (1997). Determination of the factors influencing the growth of finance leases in Kenya, [Unpublished MBA Research paper, University of Nairobi].
- Thomson, (2005). The role of leasing in UK corporate financing decisions. School of Management and Languages, Heriot-watt University Edinburgh, EH144AS.
- Vasantha, R. C. (2012). Essays on capital market frictions, leasing and investment: Evidence from Leasing Financing (Publication No. AA13529451) [Doctoral dissertation, University of Connecticut].
- Wyatt, A. R. (1974). Efficient market theory: Its impact on accounting. *Journal of Accounting*, 56-65.
- Yan, A., (2002). Leasing and debt financing: Substitutes or complements? *Journal of Financial and Quantitative Analysis*, 3(4), 56-61.