



Factors of Financial Lease and Financial Performance of Lease Manufacturing Companies in Nigeria

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Abstract

Lease manufacturing companies in Nigeria have experienced mixed results in terms of financial performance despite their significance to the socio-economic growth, employment offering and development of the country. The objective of this study is to investigate the lease financing and financial performance of manufacturing companies in Nigeria. The study employed panel dataset collected from the annual audited financial statements and reports of seventeen listed manufacturing companies (MCs) in Nigeria that fully practiced lease financing spanning 2007-2022. The study sample size for analysis was 17 listed lease manufacturing companies. STATA Software Version 15 were used to test the relationships for this study. To achieve the objective of the study, the statistical tool use are correlation and regression analysis. Having estimated the parameters of the model numerically, with the use of multiple linear regression on the application of the ordinary least squares (OLS). Upon the completion of the analysis used, it was confirmed that, total lease, fixed assets turnover, total assets turnover index and lease income have positive relationship with financial performance. In addition, the findings provided support for hypothesized relationship between firm size and financial performance. The study recommends that good policies should be put in place to encourage lease manufacturing companies to do well in their various businesses. This will improve their performance thereby, having more equipment to lease out. Thus, this will increase the income of both lessors and lessees, employment creation, improvement on the gross domestic product (GDP) and general well-being of Nigerians.

Keywords: Total lease, Fixed assets, Total assets turnover index, Lease income, Return on Asset.

Introduction

The increasing trend of financial performance has attracted the attention of investors, shareholders and other stakeholders on where to investment their money. Given the importance of financial performance to any given organization, there has been so much concern to investigate factors which affect performances of lease

manufacturing companies in Nigeria. Therefore, financial performance is important for all stakeholders involved, investigating factors which affect such performance in the lease manufacturing companies is essential. The financial performance of manufacturing lease is critical to the growth and development of any economy, and Nigeria is not an exception. Hence, any company that have good performance will

attract investors to put in their money for businesses. This is because, high return on investment for shareholders will be guaranteed as a result of good financial performance recorded by the organization (Herman & Michael, 2019). In addition to the above, the advancement of lease financing as an alternative to funding a business has played an important role in improving effective business delivery not only in the listed manufacturing company in Nigeria but also in other sectors. Specifically, leasing is an alternative means of financing plant and machinery, cranes and bulldozers, ships, aircraft, landed properties, equipment and business vehicles, assets of substantial value and among others. It is a well-known fact that, there are several sources of funding accessible for firms in order to finance operations and what has become evident throughout the years is that leasing assets is an essential alternative to purchasing assets such as offices, store premises fixed assets and machinery (Săcărin, 2017). Therefore, lease manufacturing financial performance is of great concern to researchers, policy makers and economic planners alike because the sector depends on the efficiency and ensuring the assets are available for lease (Musah, Kong & Osei, 2019). However, financial performance for almost a decade in Nigeria manufacturing lease companies remains an issue of concern to all stakeholders. Luqman and Oluwaseun, (2020) assert that financial performance in Nigeria lease manufacturing companies (NLMC) remain unimpressive for quite some years. This shows that the ability to make profits by NLMC in Nigeria is gradually declining. The fall in profit was majorly attributed to the global economic recession and inflation. In other words, some of the criteria being employed by the manufacturing sector in Nigeria to measure such performance have been compromised (Ayobami, 2019). However, the bulk of the performance problems and deficiencies of the Nigerian lease companies could more appropriately be attributed to managerial inefficiencies, inability to manage total lease, appropriate depreciation to be charged for fixed assets, inappropriate of monitoring total assets turnover index and how to access lease income. Previous studies have found that the current management capabilities to imbibe the culture of proper maintenance of fixed assets,

discipline in terms of total lease, economic recession and among things are grossly inadequate to solve performance challenges of various Nigerian companies especially the lease manufacturing (White Clarke Group, 2019). Specifically, there is a general consensus that the managements of Nigerians are by and large inefficient and ineffective (Luqman & Oluwaseun, 2020). Furthermore, the statistics have it that, Nigeria was ranked 46th on the list of among the country using lease financing in the world and contributing 0.51 billion dollars to the global lease volume in 2017 (Ayobami, 2019). The implication of this decline in revenues to the lease companies is that over N1.84 trillion might have been lost to lessees as a result of the economic recession on both individuals and businesses in the country (Luqman & Oluwaseun, 2020). It is against this background that this study investigates possible factors responsible for the poor performance of lease manufacturing companies in Nigeria with a view to offer solution to the problem and enriches the literature.

Conceptual Review

This study, which is about investigating the factors of financial lease and financial performance of manufacturing companies in Nigeria has the following concept and theory to be discussed.

Financial performance

Financial performance is a measure that shows how well a firm is doing well in terms of generate revenues. It is an indicator that can be used to measure a firm's overall financial health over a given period. Thus, with this, every investor can make comparison between similar firms across the same industry or to compare industries or sectors in aggregate (Bahaa & Bahaa, 2021). In other words, it is defined as the outcome of activities and the appropriate measure for assessing firm financial performance. In this study, financial performance is measured as return on assets. That is, profit after tax divided by total assets.

Total lease

Generally, from the conceptualization perspective, total lease implies the lessor to run and maintain the asset within the usage period of

time. Most especially, total lease could be the combination of financial lease or operating lease (Sunjoko & Arilyn, 2016). In other word, under the umbrella of total lease, is fully cancellable or partly non-cancellable. Specifically, financial lease is regard as cancellable. This is because it requires longer period of time and this involve a substantial part of the asset life to allow the lessor to recover a major part of his investment, thereafter, the lessee is cancellable at the lessee's option (Gospel & George, 2019).

Fixed assets

Fixed assets turnover is also another vital factor that could enhance lease financing and financial performance. Fixed assets are the extent to which firms employ assets that are not movable from one place or to the other in their business. Specifically, fixed assets by nature include the amount of property, plant, equipment and less the accumulated depreciation (Olatunji & Adegbite, 2014). By extension, it is more worthy to be convince that lease manufacturing companies regards fixed assets as the assets that are more permanent in nature and are intended for use in the business, rather than for sale. For instance, fixed assets needed in a new business might include the followings; land, buildings and machinery and equipment (Okwo, Okelue & Nweze, 2012).

Total assets turnover

Total assets refer to the degree to which the firm is financed by the total assets in relation to the net sale. It is argued that total assets are made up of fixed assets and current assets. In this regard, total assets refer to the degree to which the firm is financed by the net sales to the total assets (Maniagi & Mwalati, 2015). Also, Qadar, Anjum, Shahid and Sonia (2015) based their argument on the fact that total assets is regard as assets that is fixed in nature. They further stated that total assets are used as a proxy of net sales for the period to total assets to measure the industry's performance. Some school of thoughts argue that total assets is combination of the various asset components which were identified as; financial fixed assets, tangible fixed assets, current assets, current investments, cash in hand and at bank (Deitiana & Habibuw, 2015).

Lease income

Income lease as the name implies is a term used to express the total lease in relation to the revenue of the firm. Lease income is defined as all the revenues that the lessors receive as a result of a lease arrangement entered into. It is measured as the total lease to total revenue (Alkhazaleh, et al, 2018). Adding further to the lease income meaning, Stanton and Wallace (2009), stated that "instances of lease income from the organizational point of view is the arrangement whereby the organization realize a profit from the sale of underlying assets. Against this background, Ambrose, Hendershott and Klosek (2002) suggested that lease income is also known as variable lease because is a name for a type of clause in a lease agreement that often used in a commercial real estate.

Firm size

In finance literature, firm size is widely regarded as an important mechanism for lease financing and financial performance. Firm size is defined in terms of quantity and array of production capability, quantity and diversity of services a firm can concurrently make available to its clients (Shaheen & Malik, 2012). Firm size is measured as the log of total assets of the organization (Danaei, & Abdi, 2015; Kumar & Kaur, 2016). Similarly, Sangosanya (2011) based his argument on the fact that an increase firm size makes the ability of firm to expand in term of technology.

Theoretical Review

In this study, agency cost theory is used to underpin the study. (ACT) will underpin this study as it explains the relationship between lessor and lessee which is connected to principal and the agent thereby leading to the financial performance (Songini & Gnan, 2015; Tate, Ellram, Bals, Hartmann, & Valk, 2010; Wellalage & Locke, 2011). For instance, ACT advocates the influencing ownership from complete dominance and interest of managers (Jensen & Meckling, 1976; Smith & Warner, 1979; Zhou, 2014). Essentially, Fauzi and Locke (2012) support that the separation between the agent and the principal will give ample chance for the agent to act on behalf of the principal thereby resulting in effective leasing out equipment to the lessee. Lease financing factors which are total

lease, fixed assets, total assets turnover and lease income can be control properly where the agent operate without much interference. The theory, therefore, intends to help agent make decisions that will ensure financial performance and to protect all the parties in the organization. Furthermore, research has tested the validity of agency cost theory across cultures with encouraging results (Mary & Charles, 2017; Songini & Gnan, 2015).

Empirical Review and Hypotheses Development

This section reviews empirical literature on the variables under study. The variables include financial performance as (dependent variable); while total lease, fixed assets, Total assets turnover and lease income stand as (independent variables). Importantly, hypotheses were developed in a null form regarding the independent variables and dependent variable respectively.

Total lease and Firms Financial Performance

In a study of Muhammad, Abdul, Hammad, Tariq and Muhammad (2020) studied Mudarabah and leasing firms in Pakistan. The panel data of 9 leasing listed Pakistan companies were study for the period of 2011 to 2015. The data was analyzed using Tobit regression model (TRM). The result of their study established significant relationship with total lease and profitability. In a more recent time, Fidelis, et al (2020) conducted research with the objective of examining whether lease financing have an influence on the profitability of quoted conglomerates firms in Nigeria. 6 companies were sampled for a period of 6 years (2012-2017). Descriptive, pooled ordinary lease square and multiple regression statistics were employed. The findings revealed a positive and insignificant relationship on return on assets. Though, firm size was used to control possible problem of non-linearity and heteroscedasticity. The study findings could differ from one another as a result of different variables employed in their study. In contrast, Razaq and Akinlo (2017) found that the total lease ratios have a negative relationship with firms' profitability of financial lease firms in Nigeria. Thus, despite the mixed findings in their

results, it was evident that the total lease was measured as the total ratio of fixed assets to total ratio assets of firms the firms. However, board size measured as the number of directors does not influence financial performance.

H01 Total lease does not significantly influence financial performance of lease manufacturing companies in Nigeria.

Fixed assets and Firms Financial Performance

Alkhazaleh, et al, (2018) investigated the effect of financial leasing on Jordanian Islamic bank financial performance from 2010 to 2016. After using the purposive sampling method, the sample consists of those banks that are into leasing which are; Jordan Islamic bank, Jordan Dubai Islamic bank and Arab Islamic international bank respectively. It was revealed that from the regression analysis, lease financing which represent fixed assets turnover has significant impact on the return on assets and return on equity as the measures of financial performance. In a more recent time, Luqman and Oluwaseun (2020) examined the impact of financial leasing and performance of 5 listed banks in Nigeria. Annual Data for the period 2012 to 2016 on financial leasing and performance variable were collected from annual reports of Nigerian Banking and analyzed using panel regression method. The study revealed that both financial leasing as dependent variable has influence on the financial performance measured by return on asset.

H02 Fixed assets does not significantly influence financial performance of lease manufacturing companies in Nigeria.

Total Assets Turnover Index and Financial Performance

In a selected deposit money banks in Nigeria stock exchange, Asuquo and Anyadike (2018) studied the effect of lease financing on performance for the period of 12 years (2005-2016). The data were analyzed using ordinary least square and multiple regression technique. In short, the study uses lease financing as independent variable and performance as dependent variable. The findings revealed that there is a positive and significant relationship

between finance lease which is measured as the net sales for the period divided by the total assets and corporate performance. In a different background, Yusuf and Isa (2021) conducted a study whose objective was to examine the financial leasing on Islamic bank performance in Malaysia for the period from 2004-2018. The sample of the study consist of twelve Islamic banks that are registered in Malaysia stock exchange. Return on assets (ROA) and net profit margin (NPM) were the proxies for financial performance while total assets turnover was proxy for net sales of the banks to the total assets of the banks. The outcome of their empirical findings indicate that lease financing has a positive and significant impact on NPM. Contrarily, Biourjade, et al. (2017) investigated how leasing choices impact the profitability of airlines operating across different countries. The sample study were 73 airlines that operated across the world for sixteen years. The study found that the leasing effect on profit margin was insignificant, indicating that marginal returns arising from leasing in the sector were declining.

H03 Total Assets Turnover Index does not significantly influence financial performance of lease manufacturing companies in Nigeria.

Lease income and Financial Performance

Asuquo and Anyadike (2018) investigated the impact of lease financing on corporate performance of deposit money banks in Nigeria. Hence, the study sample were fifteen deposit money banks that are quoted in Nigerian Stock exchange for the period of 2005-2016. The data were analyzed using ordinary least square and multiple regression technique. Empirically, it was demonstrated that the study findings have positive and significant relationship between finance lease (lease income) and corporate performance measured through return on assets and profitability. Arshad, et al, (2020) extend the period covered by Asuquo and Anyadike (2018) and examined the oil and gas of Pakistan. They sampled nine financial lease firms listed in Pakistan that practiced lease financing over the period of (2013-2017). In their study, lease financing was independent variable and financial

performance as dependent variable. Empirically, it was revealed that independent variable measured as total lease to total revenue is not significantly related with financial performance measured by return on assets (ROA).

H04 Lease income does not significantly influence financial performance of lease manufacturing companies in Nigeria.

Methods

This study adopts ex-post facto and the correlation research design by employing the descriptive and inferential statistics method of data analysis using regression analysis method. The ex-post factor design involves experimental study of examining the effect of lease factors on the financial performance of manufacturing companies in Nigeria. The study shows the empirical analysis of annual financial reports of 17 listed lease manufacturing companies and the use of inferential statistics for data analysis as a result for the need to test the formulated hypotheses. Similarly, a correlational study tries to measure the degree of relationship between one or more variables for making predictions about relationship. The choice of ex-post facto and correlation design is because the study aimed at examining factors of lease financing on the financial performance of manufacturing companies in Nigeria. As such, financial performance is measured by Return on Asset (RO). In addition, total lease is measured by the ratio of total fixed assets to total assets, fixed assets turnover is measured as the net sales to fixed assets while total assets turnover index is measured asset sales to total assets and lease income is further measured by the total lease to total revenue. A sample size of seventeen (17) was selected using purposive sampling technique as the basis for selection. The data of the seventeen (17) listed lease manufacturing companies for the period of sixteen years from (2007-2022) used in this study was collected from the secondary sources, basically from the published annual reports of the individual companies that practiced lease financing. For the basis of data analyses, the STATA version used in this study is 15.0.

Regression Model for the study

FP = F (TL, FA, TAT, LI). The model was derived from the work of (Alkhazaleh, et al, 2018 & Yusuf & Isa, 2021). The above variable can be expressed as the function of $FP = \alpha + \beta_0 + \beta(TL) + \beta(FA) + \beta(TAT) + e$ 1

Where FP= the ratio of financial performance for the firms in the industry is α = an intercept. β = Coefficient variable model where TL=Total lease, FA= Fixed assets, TAT= Total assets turnover, LI= Lease income and e= error term.

Table 1. Variables and Measurements for the study

Variable	Measurement	Source
Financial performance	ROA=Profit after tax divided by total assets.	Mary and Charles (2017); Muhammad et al, (2020)
Total lease	Total fixed assets divided by to total assets	Mary and Charles (2017); Martina (2015); Muhammad et al, (2020)
Fixed assets	Net sales to fixed assets	Wafula et al (2016); Bello and Almustapha (2016); Luqman and Oluwaseun (2020)
Total assets turnover	Net sales for the period divided by the total assets	Asuquo and Anyadike (2018); Biourjade, et al (2017); Yusuf and Isa (2021)
Lease income	Total lease to total revenue	Arshad, et al, (2020); Asuquo and Anyadike (2018)

Source: Literature Review, 2023

The table I above shows the variables, measurements, sources and anticipating relationships between financial performance and factors of financial lease of manufacturing companies in Nigeria.

Results and Discussion

In every empirical research, it is better to test hypotheses so as to establish the relationship between two or more variables. Therefore, before the analysis in this study, the data is subjected to correlation and regression test. The essence of doing this is to ensure the proper data validation and reliability of the data. The results obtained are therefore used in testing the hypotheses developed from the model.

Validation of the Data

The test of fixed effect and random effect are conducted in this study. In chosen between fixed effect test and random effect test, Hausman Specification test was conducted. Meaning that, the rule has stated that to select the most efficient result between Fixed Effect (FE) and Random Effect (RE) regression Generalized Least Square (GLS) is determined by the coefficient of probability (Prob>chi2) is less than 0.1 or greater than 0.1. Specifically, a significant probability suggests that Fixed effect model should be analyzed while a not significant probability suggests that Random effect model should be analyzed in every study. Therefore, since the result of Hausman test in this study is given as (Prob>chi2= 0.0171) which is not significant at 0.0000. The justification for chosen Random effect model in this study is because Hausman specification test is not significant.

Table 2. Regression Model

Variables	(1) Pooled OLS	(2) Fixed	(3) Random	(4) PSCE
TL	0.001*** (3.36)	0.162* (1.40)	0.051** (1.96)	0.003*** (3.02)
FATI	0.000 *** (-3.77)	0.708* (-0.37)	0.263* (-1.12)	0.000*** (-4.52)
TATI	0.000*** (-7.33)	0.000 *** (29.70)	0.000*** (-29.70)	0.000*** (-21.02)
LI	0.000*** (4.58)	0.006*** (2.78)	0.001*** (3.44)	0.000*** (6.42)
FSIZE	0.000 *** (-3.56)	0.624* (0.49)	0.493* (-0.69)	0.000*** (-3.82)
_CONS	0.000 *** (4.90)	0.918* (0.10)	0.145* (1.46)	0.000*** (5.50)

Source: STATA Output, 2022

*Significant at 10%, ** Significant at 5%, *** Significant at 1% (Two-tailed test), t-statistics in parentheses.

The Table 2 above shows the regression model of the study. Importantly, the differences in the degree of significance level stem at 10% which is 0.1 is significant for random effect after Hausman test result (Gary & Robert, 1994). Meanwhile, 5% which is 0.05 and 1% of 0.01 are still within the range of significant level for fixed effect. Therefore, after Hausman test result, it favoured fixed effect as the result of this study Hausman test is significant at 0.0224. Thus, 5% and 1% are generally acceptable level of statistical significance used by many researchers (Alkhazaleh, et al, 2018; Barus, Muturi, Kibati & Koima, 2017; Baseweti & Muturi, 2018; Fidelis, et al, 2020; Luqman & Oluwaseun, 2020; Morales & Zamora, 2018; Nhung, 2017; Omer, et al, 2017). Therefore, in this study, 5% and 1% have been chosen as the level of statistical significance. The Hausman's test results favoured the Fixed-

Effect Model with the value Chi2 = 13.10 and prob>chi2 = 0.0224. The null hypothesis for the Hausman's test states that the difference in coefficients is not systematic, thus suggested than the random results are more appropriate than the fixed effect results. It is therefore, argued that since the p-value is less than 10%, the null hypothesis is rejected. Therefore, the study concludes that the fixed effect model is appropriate. However, there is a presence of Heteroskedasticity in the model with (chi2 (17) = 9035.94 and Prob>chi2 = 0.0000. Thus, Panel Corrected Standard Error (PSCE) is conducted to address the problem. This is because PSCE estimates is not only robust against unit of Heteroskedasticity but also robust against possible immediate correlation across the unit that is common in time series cross-sectional data (Bailey & Katz, 2010; Kusairi, Sanusi & Isma'il, 2015).

Table 3. Summary of Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	271	.1921042	1.012713	-13.44904	4.805528
TL	271	.8939664	1.075299	-1.788749	14.89127
FATI	271	3.274601	4.047385	.0073235	24.65012
TATI	271	1.725669	4.587964	-15.4116	64.98546
LI	271	-.6432268	.686926	-4.76189	.6817411
FS	271	10.07788	.689226	8.290235	11.7897

Source: STATA Output, 2022

From table 3 above, the results of descriptive statistics show that the levels of average financial performance measured by ROA is 19.21%, while the highest financial performance achieved by the firms for the period under study is 48.05%. However, the lowest financial performance accounted by the firm during the study was -13.44%. In addition, financial performance which is measured by ROA has a standard deviation of 10.13% this indicates the extent to which ROA as a dimension predict firms financial performance. The study found that lease financing variables measured by TL, FATI, TATI and LI have mean values of 89.39%, 32.74%, 17.26% and -.6432268% with a minimum values of -17.88%, .0073235%, -15.41% and -47.62%, and maximum value of 14.89%, 24.65%, 64.99% and .6817411% respectively. Similarly, the standard deviation for the lease financing variables for TL, FATI, TATI and LI are 10.75%, 40.47%, 45.88% and .686926 % respectively which indicate the variability of the values of financial performance. However, on the control variable of the study, the average total assets since the initial lease financing (ILF) of all lease manufacturing companies in Nigeria measured by the firm size is 10.07 with standard deviation of .689226 as at 2022. Furthermore, firm size in relation to lease financing has minimum value of 8.29 and with maximum value of 11.79 for all lease manufacturing companies as at 2022. By implication, the above figures for minimum and maximum values of firm size of the lease financing company could result to firm performance and that depend on the number of total assets leased out by the companies.

Conclusion and Recommendations

The study investigated the factors of financial lease and financial performance of lease manufacturing companies in Nigeria. Based on the findings of the study, total lease influences the financial performance of manufacturing companies in Nigeria. Specifically, the ratio of total fixed assets to total assets is important factors of manufacturing companies in Nigeria. Furthermore, it is concluded that fixed assets turnover of lease financing factor improves the financial performance of lease manufacturing companies in Nigeria. This is because, the lease companies financed the assets used by the lessee

but not on loans terms. It is worthy, therefore, to conclude that total assets turnover and financial performance has a positive relationship and a significant impact on lease manufacturing companies over the periods covered. This means that total assets turnover index and financial performance move in the same direction. Similarly, the study concluded that lease income has a positive relationship with financial performance of lease manufacturing companies, thus the higher the income generated by the firms, the more it will translate to the financial performance of lease manufacturing companies in Nigeria will improve. In view of the above conclusion, the management of lease companies to concentrate more on this dimension of total lease as it enhances financial performance to both lessors and the lessee. The management should make recommendation on the basis that fixed assets turnover can yield more return to the organization as it has a long-life span. Management should concentrate resources on lease equipment that have longer period of time which could create more economic value to the lessee. In essence, doing this will enable the lessee to have enough time to use the lease equipment and pay their periodic payment. This will in turn improve the financial position of the lease company. Finally, it is recommended that this dimension should be giving more priority since lease financing cannot do without generating to sustain the business.

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