



## AN EMPIRICAL INVESTIGATION OF LEASE FINANCING AND FINANCIAL PERFORMANCE OF CONGLOMERATES FIRMS LISTED IN NIGERIA STOCK EXCHANGE

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### Abstract

*Conglomerates companies in Nigeria has experienced mixed results in terms of financial performance on leasing despite their significance to the economic growth and development of the country. The objective of this study is to investigate the lease financing and financial performance of 5 lease manufacturing companies in Nigeria Stock Exchange from 31<sup>st</sup> December, 2006 to 31<sup>st</sup> December, 2021. The study employed secondary data from the annual audited financial statements and reports of five listed conglomerates lease manufacturing companies (CLCs). Financial performance is measured using return on asset while total lease, fixed assets total assets turnover index were used to measure lease financing. The study uses ex-post facto research design and longitudinal panel which consists of time series and cross-sectional data. The data were analyzed using descriptive statistics and regression analysis. The study found that total lease has significant positive relationship with financial performance; fixed assets has significant positive relationship with financial performance. In addition, total assets turnover also has significant negative relationship with financial performance. Therefore, the study recommends that the regulatory bodies which comprises Central Bank of Nigeria (CBN) and Security Exchange Commission (SEC) to concentrate on more policy reforms that could enhance the proper utilization of total assets turnover to improve financial performance of conglomerates lease manufacturing companies in Nigeria.*

### Keywords

Total lease  
Fixed assets  
Total assets turnover index Return on Asset.

### JEL Classification

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## 1. Introduction

Globally, financial theorists and investors have more concern on the financial performance of an organization where they invest. Thus, it is widely

believed in finance literature that, financial performance (FP) is not only to maximize the returns of shareholders but is also a medium through which the economic development of a

nation could be enhanced (Luqman & Oluwaseun, 2020). Given that firm performance is important for all stakeholders involved, investigating lease financing in the conglomerates firms in Nigeria are important. The financial performance is critical to the growth and development of any economy, and Nigeria is not an exception. Hence, good performance results into achieving strong competitiveness, high return on investment for investors, good standard of living, generating employment and increase in Gross Domestic Products (GDP) of an economy. Financial performance is used to measure the overall financial health and position of any organization. Importantly, it can be measured as the return on operating cash flows (OCF), return on assets (ROA), return on equity (ROE), earnings per share (EPS), return on capital employed (ROCE) and among others (Abdulkarim, Mohammed & Musa, 2020; Musah, Kong & Osei, 2019).

Financing/capital structure and its relationship with firm performance has been a contentious issue in corporate finance for many years. Importantly, many argue that a firm should use debt as a primary source of financing because of its tax related benefit. Since the interest paid on debt is tax deductible, a firm can essentially lower its tax liability for any given year; thus, increasing net income. On one hand, the primary issue with financing with debt is that the firm will eventually have to pay the debt back, which increases its overall risk and in turn affect performance of the firm. On the other hand, equity financing does not provide any tax shelter and dividends are not tax deductible. However, unlike debt financing, a firm does not have to pay anything back. It is worthy to understand that, the problem of capital structure, therefore, arises from determining the portion of each source of finance that will yield optimum return with minimum risks (Dutta, Mukherjee & Sen, 2018; 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 conglomerates 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 and machinery (Săcărin, 2017). Therefore, lease is a contract between an owner of equipment (the lessor) and another party (the lessee) giving the lessee possession and use of a specific asset in return for payment of specific rentals over an agreed period (Kurfi, 2005). In other words, the lessor's role is to finance the acquisition of equipment required by the lessee who will have selected the goods and dealt directly with the supplier in determining their performance attributes and suitability (Demmou, Stefanescu & Arquie, 2019).

However, in 2016 the industry recorded a drop in growth of 14 percent when compared with 27 percent recorded in 2015, due to the inability of the industry to cope with demand resulting from the high cost of equipment, necessitated by foreign exchange and funding challenges (ELAN, 2018). The report further indicated that Nigeria was ranked 46<sup>th</sup> 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 (White Clarke Group, 2019). In fact, the statistics further indicated that the lease industry contribution to GDP experienced decline of 1.84 percent within the period of 2017. 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). Hence, this might be connected to total lease equipment, over relying on fixed assets turnover and inappropriate calculation of total assets depreciation. This seriously affects the financial performance of the CLCs. Unlike other studies before this, is a study to investigate lease financing of conglomerates companies in Nigeria.

## **2. Literature review**

### *2.1 Conceptual Review*

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

#### *2.1.1 Financial performance*

Generally, financial performance (FP) is described as the ability of an industry to use its resources effectively and efficiently in such a way as to achieve its stated objectives (Dahmash, 2015). It is also concerned about how firm use its limited resources to generate profit in a sustainable manner (Danaei & Abdi, 2015). Therefore, ability of the firm to turn around revenues above all the necessary costs will yield more result and this is performance. In this study, FP is measured as the return on assets. That is, profit after tax divided by total assets of the firm.

#### *2.1.2 Total lease*

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). It is defined as the sum of financial lease and operating lease (Li, 2014). Thus, for the purpose of this study, total lease is measured as the fixed assets divided by the total lease assets of the company within accounting period (Li, 2014).

#### *2.1.3 Fixed assets*

By definition, 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 fixed assets are the assets that are more permanent in nature and are intended for use in the business, rather than for sale. For instance, land, buildings and machinery and equipment (Okwo, Okelue & Nweze, 2012).

#### *2.1.4 Total Assets Turnover Index*

Total assets turnover index refer to the degree to which the firm is financed by the total assets in relation to the net sale. Conceptually, it is a 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 respectively (Deitiana & Habibuw, 2015). In addition, Qadar, Anjum, Shahid and Sonia (2015) based their argument on the fact that total assets is regard as assets that is fixed in nature.

## *2.2 Theoretical Framework*

In this study, agency cost theory is used to underpin the study. The rationale behind using this theory is that 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; Wellalage & Locke, 2011). For instance, agency cost theory (ACT) advocates the influencing ownership from complete dominance and interest of managers (Jensen & Meckling, 1976; 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 to manage the assets of the organization. Moreover, the literature demonstrated that the assets which both parties traded on are total lease, fixed assets

and total assets turnover index respectively thereby leading to firm performance. Furthermore, research has tested the validity of agency cost theory across cultures with encouraging results (Songini & Gnan, 2015; Zhou, 2014). It was demonstrated that agency cost theory positively influences lease financing and financial performance. Therefore, the justification for using this theory to underpin the study stem from the fact that literature review has demonstrated the existence of relationship between financial performance and lease financing which form the basis of the variables of this study.

### *2.3 Empirical Review and Hypothesis Development*

This section reviews the empirical literature on the variables under study. The variables include financial performance as (dependent variable); while the combination of total lease, fixed assets and total assets turn over make up the (independent variables). In this study, the hypothesis are set up in null form between dependent variable and independent variables.

#### *2.3.1 Total lease and Financial Performance*

In a study in Kenya, Mary and Charles (2017) investigated the relationship between total leases of manufacturing listed in Nairobi on Kenya Stock Exchange among 90 lessees. Their study uses Statistical Package for Social Sciences (SPSS). Descriptive and inferential statistics were employed in their study for analysis. The findings of the study indicated a positive significant relationship between total lease and financial performance of the firm. Similarly, Martina (2015) conducted a research titled the impact of total lease on performance for the period of 6 years (2005-2010). The findings revealed that the total lease which is measured by fixed assets divided by total lease assets of the company negatively and significantly influence performance of some selected Croatian leasing industry. Similarly, the study of Muhammad,

Abdul, Hammad, Tariq and Muhammad (2020) examined the efficiency analysis of Mudarabah and leasing firms in Pakistan: Some evidences from Pakistan using panel data of 9 leasing listed companies during the period 2011 to 2015. The data was analyzed using Tobit regression model (TRM). The result of their study has established significant relationship with total lease and profitability.

*H<sub>01</sub>*: Total lease does not significantly influenced financial performance of conglomerates firms listed in Nigeria.

#### *2.3.2 Fixed assets and Financial Performance*

Wafula, Namusonge and Nambuswa (2016) investigated the effect of finance lease on the financial performance of firms in Kenya as one of the countries that practiced leasing. The purposive sampling method was used to arrive at 10 country officials. According to the research findings, fixed assets in lease financing has a positive impact on financial performance (measured by ROA). In contrast, Bello and Almustapha (2016) examined the impact of lease financing on the liquidity of companies in the Nigerian oil and gas. Surprisingly, the result revealed that leasing which constitute as the fixed assets turnover does not have positive impact on the liquidity of the companies. Recently, Luqman and Oluwaseun (2020) examined the impact of financial leasing and performance of 5 listed banks in Nigeria. Annual Data for the period of 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.

*H<sub>02</sub>*: Fixed assets does not significantly influenced financial performance of conglomerates firms listed in Nigeria.

### 2.3.3 Total assets turnover and Financial Performance

In a selected deposit money banks in Nigeria stock exchange, Asuquo and Anyadike (2018) studied the effect of lease financing on corporate 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 corporate 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. Biourjade, Huc, Muller and (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 airlines, indicating that marginal returns arising from leasing in the sector were declining. In recent times, 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.

*H<sub>03</sub>*: Total assets turn over does not significantly influenced financial performance of conglomerates firms listed in Nigeria.

### 3. Methodology

In this study, Ex-post-facto research design is used. In terms of analyzing the data, descriptive statistics, correlation and multiple regressions were jointly used. As such, upon the completion of the work and to arrive at best analysis, comparisons were made between ordinary lease square (OLS), fixed effect model (FEM), random effect model (REM) and hausman tests respectively. In this study, data were sourced from annual audited account of conglomerates firms quoted in Nigeria Exchange as at 2016 to 2021. Therefore, this study used purposive sampling technique for the working population of 5 firms that practiced financial lease and whose financial records were available on the Nigerian Exchange as at 31st December, 2021. The explanatory variables which constitute to financial lease are; total lease, fixed assets and total assets turnover while financial performance as dependent variable is measured as return on asset. For the basis of data analyses, the STATA version used in this study is 15.0.

#### *Regression Model for the study*

The model was adopted from the work of Biourjade, et al. (2017):

$$FP = F(TL, FA, TAT).$$

The above variable can be expressed as the function of

$$FP = \alpha + \beta_0 + \beta(TL) + \beta(FA) + \beta(TAT) + e \quad 1$$

Where FP= the ratio of financial performance for the firms in the industry is  $\alpha$  = an intercepts.  $\beta$  = Coefficient variable model where TL=Total lease, FA= Fixed assets, TAT= Total assets turnover, 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 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)

Source: Literature review (2022)

#### 4. 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. The results obtained are therefore used in testing the hypotheses developed from the model.

##### 4.1 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. In selecting the most appropriate between this two post-estimation test, the coefficient of probability (Prob>chi2) must be less than 0.1 or greater than 0.1 on the basis of Generalized Least Square (GLS). 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. Therefore, since the result of Hausman test in this study is given as (Prob>chi2= 0.0171) of which any p-value is considered to be significant at 0.0000. The justification for chosen Random effect model in this study is because Hausman specification test is not significant.

**Table 2. Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	79	.1715806	1.582505	-13.44904	1.822347
TL	79	.430233	.2465225	.0331747	.9120796
FATI	79	4.772287	5.563008	.1536251	24.65012
TATI	79	2.848539	7.950998	-4.597537	64.98546

**Source:** STATA Version 15.0 output, 2022

In Table 2, 79 observations were observed in this study. The degree of profit after tax/total assets as a dimension of financial performance (FP) demonstrates 17.15. Thus, indicating, that the expectations of the investors (lessors) in their investment is low (Bello & Almustapha, 2016). This shows that, lessors are not fully making their financial obligations as planned. However, there is room for improvement as the mean value of FP17.15 is not negative. The descriptive statistics further demonstrated that return on assets the measure of financial performance are 18.22 and -13.44 as their maximum and minimum value respectively. This shows that while using the assets pledge by the lessor, there could economic challenges which lessee face

that result to such low level of financial performance.

The total lease, fixed asset and total assets turnover show 43.02, 47.72 and 28.48 as the average value in relation to financial performance. This suggests that some companies in Nigeria under the umbrella of conglomeration are relatively improving in terms of financial performance. Specifically, 03.31 and 91.20 serve as minimum and maximum values for total lease. The minimum and maximum values for fixed assets are 15.36 and 24.65 while the minimum and maximum values are -45.97 and 64.98 for the total assets turnover index. It means that, on the average the joint efforts of all the independent variables in the study could yield to financial performance in the long run.

**Table 3 Model Regression Results of Ordinary Least Square (OLS)**

Variables	POOLED OLS	Random Effect	Fixed Effect
TL	-.4358 (0.249)*	.3717028 (0.363)*	.435897 (0.311)*
FATL	.0098 (0.507)*	.0027734 (0.880)*	.0098004 (0.623)*
TATL	-.1858 (0.000)***	-.1877764 (0.000)***	-.1858767 (0.000)***
CONS	.1235889 (0.596)*	.1877727 (0.474)*	.1235889(0.649)*
F-Statistics	179.85 (0.0000)	0.0000	0.0000
R-Squared (within)	0.8780	0.8867	0.8870
Adjusted R <sup>2</sup> (between)	0.8731	0.8744	0.8711
Adjusted R <sup>2</sup> (overall)		0.8779	0.8772

**Source:** STATA Output, Version 15.0, 2022

Table 3 above, shows that OLS random effect and fixed effect were conducted. The (R<sup>2</sup>) determination coefficient among the variables of the study indicates that 87.80% is for Return on assets (ROA). The criteria for choosing 87.80%

is connected to value obtained from both random effect and fixed effect and that favored fixed effect. Therefore, other factors not captured in the model constitute 12.2%. In addition, the random effect result is more efficient as the

result is 87.79% which means only 12.21% changes of firm financial performance is explained by other variables. The model is statistically significant at 1% level and fit for the study.

The fixed effect regression analysis results show that 37.17% was obtained in respect of total lease variable. However, the result confirmed the strong relationship at 37.17%. The strong relationship between total lease and firm ROA indicates that the total lease is a contributive factor of financial performance. The current study findings are in agreement with the study of Mary and Charles (2017); Muhammad, et al (2020) who also established positive relationship between total lease and firm financial performance.

Furthermore, fixed assets as another independent variable has a positive relationship with firm performance (ROA). The justification

for this is that, the coefficient of sales growth is 0.027. The study finding is consistent with the agency cost theory. Therefore, this study adopted the theory. This study findings are consistence with the study of Bello and Almustapha (2016); Luqman and Oluwaseun (2020); Wafula, et al, (2016) studies are also in agreement with the current study findings as the result of their studies demonstrate positive relationship.

With respect to total assets turnover as the third variable, the study established the relationship in terms of (ROA) at -18.77% with p-value of 0.000. After regression analysis test, the result revealed that total assets turnover has positive influence with financial performance. The study is conformity with the study of Asuquo and Anyadike (2018); Yusuf and Isa (2021) but, inconsistency with Biourjade, et al (2017).

Table 4. Hausman Specification Test for Fixed Effect and Random Effect  
hausman fe re, sigmamore

Variables	Coefficients		Difference (b-B)	sqrt(diag(V_b-V_B)) S.E.
	(b) .fe	(B) re		
TL	.435897	.3717028	.0641943	.1040515
FATL	.0098004	.0027734	.007027	.006885
TATL	-.1858767	-.1877764	.0018996	.0032913

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$\chi^2(3) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 1.28$

Prob>chi2 = 0.7339

As depicted, the Hausman test specification was conducted. The result of Hausman test, indicated that probability chi2 in this study is 0.7339. It is an indication that, the figure is above the benchmark for the Hausman test. As such, this has shown that the best model for estimating the effect on firms' financial performance is the random effect model. The condition for the selection between fixed effect and random effect is that, if the prob>chi2 is less than 0.05 or

greater than 0.05 as the case may be. Hence, this study selects the random effect model because the prob>chi2 is more than 0.05.

## 5. Conclusion and recommendations

The aim of the study is to investigate the effect of lease financing and financial performance of conglomerate companies in Nigerian. In view of the findings, this study concludes that the total lease, fixed assets to total index and total assets



to total index have both positive and negative effects on the financial performance of the quoted companies in Nigeria. In line with this, the management is gear up to manage the said assets used in lease financing to attract financial performance. In other word, doing this will attract both lessors and lessee to the business. Despite the revealed insightful findings, this study has some limitations which includes; limited scope in the conglomerates companies, differences in geographical locations of the companies, possible variance could have an impact on research variables and among others. Against this background, future research should consider including transportation companies and construction firms in their study. Similarly, in view of this procedural short coming, future research can increase the number of years from sixteen in order to conduct a macro panel study. Therefore, recommends that the management of conglomerate companies in Nigeria should improve on total lease to improve financial performance. More importantly, doing this will enable both lessor and lessee to enjoy the business transaction in the long run. Secondly, it is expected that the management of the organization should explore more on the issue of leasing fixed assets to attract financial performance. Finally, total assets turnover result of hausman test has shown mixed result for both fixed effect test and random effect test respectively. Therefore, the management of the organization should put more attention on this variable such that both lessee and the lessors will enjoy the economic benefits of the business. Ability of doing this will enhance financial performance for the organization.

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