Lease Financing and Financial Performance of Listed Construction and Real Estate Companies in Nigeria

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DOI: 10.56201/jafm.v9.no6.2023.pg126.146

Abstract
This study evaluated the effect of lease financing on financial performance of listed construction and real estate companies in Nigeria. Lease financing was proxied by financial lease and operating lease while financial performance was proxied by net profit margin and return on equity. The population of the study consists of six listed construction/real estate companies in Nigeria. The entire population was used as sample size using the census approach. The study employed ex-post facto research design. Secondary data were collected from audited annual financial report of listed construction/real estate companies in Nigeria from 2011-2020. The study adopt the use of descriptive statistics for univariate analysis while hypotheses formulated were tested using multiple regression with the aid of stata 12 statistical software. The findings show that operating lease has a positive and insignificant effect on both net profit margin and return on equity. Also there is a positive and significant effect of financial lease on financial performance. The study concluded that lease financing has a significant effect on financial performance of listed construction and real estate companies on Nigerian Exchange Group. The study recommends amongst others that listed construction and real estate companies should reduce the proportion of operating lease finance in their operations as evidence suggests it negatively affect financial performance (net profit margin). Also, policy makers should increase tax shield for leasing products so as to encourage firms to make use of leasing financing rather than have high credits.

Keywords: *Lease Financing, Financial Performance, Companies, Nigeria*

Introduction

The primary aim of every business is to be a going concern. Therefore, managers and business owners are in desperate search for the appropriate strategies to employ to keep the company abreast with the current requirement for attaining competitive edge over competing firms in the industry and enhanced financial performance. Financial structure of the organization is very crucial to capture the growth opportunities in the competitive markets. The financial performances of the organizations in a competitive business environment rely heavily on availability of fund and asset to accelerate its activities. Corporate performance denotes an overall extent of a company's economic strength over a determined period (Aondoakaa, 2015). Awino (2013) opines that organizational performance is a measure of how well a firm can use its assets from its primary mode of business and generate revenues. Osoro and Muturi (2013) assert that an enterprise's performance can be prudently measured by variables such as profitability, sales level, production level and employment level among other factors. Financial performance of a business is actually an objective measure of exactly

how effectively a firm is able to utilize its assets in its main economic operations to produce revenues. This particular phrase is likewise used as a broad measure of a firm's general economic health within a certain time period and may be utilized in order to evaluate identical firms across the identical business or maybe to evaluate sectors or industries within the general business environment. Chepkemoi (2013) opined that financial performance highlights the status of an organization's financial output, emanating from management decisions which are executed by the personnel in various departments. The firm's level of goal achievement in terms of shareholders wealth maximization is well articulated by the information presented in the financial statements (Chimaleni et al., 2015). Financial performance is compared using ratio analysis like net profit margin, return on asset, return on equity etc. Business managers strive in improving the financial performance of their respective organizations by exploiting their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses. This can be possible by applying the right strategies in respect to financing. Capital investment leading to expansion or modernization or reconstruction, requires finance to a large extent and likely to result in increased production and profit. Hence, access to finance is important to start up and expand businesses through the development or investment in a new product, production process, and human capital (Gebremichael et al., 2020). Companies need the right and current equipment to facilitate their operations for enhanced financial performance. These companies require large capital outlay to acquire this equipment. In most situations these funds are not available and can only be achieved through lease financing. The timing of getting funds is also critical for the organizations to get better results by using those funds (Khalil et al., 2017). The leasing decisions concern whether a firm should lease equipment, or borrows money and buy the equipment. International Financial Reporting Standard (IFRS) 16 (2019) defines a lease as "A contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration". In order for such a contract to exist the user of the asset needs to have the right to: obtain substantially all of the economic benefits from the use of the asset. The right to direct the use of the assets 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, 2016). Leasing is a contract between an owner of equipment, the lessor and another party, the lessor giving the lessee possession and use of a specific asset in return for payment of specific rentals over an agreed period (Orabi, 2014). This contractual agreement represents the lease between the two parties, the lessee and the lessor, and gives the contract to the lessee the right to use certain assets for a specific time period owned by the lessor in return for periodic payments paid by the tenant for the owner.

According to Orabi (2014) leasing is the perfect solution in many circumstances where there are no sources of funding necessary or rising costs of other funding sources. As a result, business men and corporate entities cannot rely on bank credit alone as a major source of finance. The traditional methods of finance used in capital goods acquisition, such as term loans, deferred payments, and equity capital have not been adequate and far from satisfactory. In addition, there have been procedural, administrative and other imaginary and real delays in getting the finance, as well as capital equipment in time. The result has been a very significant movement towards leasing arrangements and contracts. Leasing has been clamorously claimed as an extremely convenient mode of financing fixed assets in contrast to other methods of financing. According to Salam (2013) entrepreneurs with their creative ideas have attained success through lease financing companies by getting funds to actualize

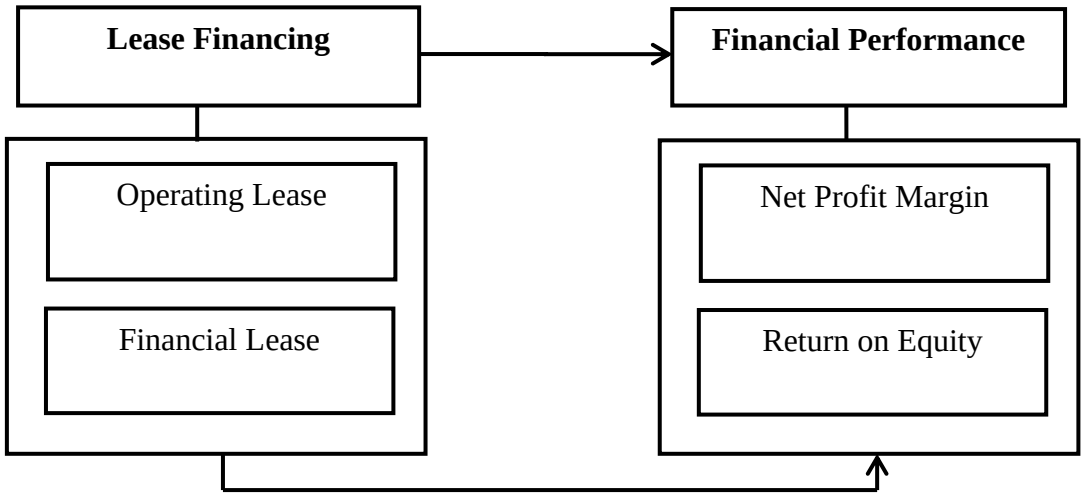
their dreams and lease financing companies achieved their purpose of prosperity in the developed countries and also doing so far in the developing countries. Leasing as a source of finance has proven to be suitable for developing private subdivision in evolution and in low earning area like sub-Saharan Africa. In Nigeria, leasing is one of the major means by which some financial institutions obtain some of the assets and equipment that are needed for effective operations. Despite financial institutions like: banks, discount houses, insurance firms are mostly engaged in leasing, other firms and even governments are getting involved in leasing. Leasing has remained attractive to investors cutting across the various sectors of the economy. A common decision faced by firms is whether to buy an asset by issuing debt to finance the purchase or simply lease the asset. These alternative financing have attracted a lot of studies and empirical models. In a lease framework, the debate become enshrined in the phrase, lease or borrow, and lease or buy the fixed tangible assets (Bello et al., 2016). In view of the above, this study therefore aims at ascertaining lease financing and the financial performance of listed construction and real estate companies on the Nigerian Exchange Group.

Statement of Problem

The economic benefits of leasing can be derivative from the company's decision of leasing relative to borrowing and obtaining the asset. Leasing as an instrument of finance, is still faced with numerous problems which are; Financing of some essential assets/equipment is one of the major challenges that firms in Nigeria are facing and because of stringent requirements of leasing firms, corporate organizations find it hard to generate enough funds to maintain the terms and conditions in the lease contract which at times result to litigation between the lessor and the lessee. The lack of any specific pronouncement on the tax treatment and uniform accounting standard for leases and the current restrictions on the total capital allowance claimable and method of determination of such claims. On the tax differential, it is argued that if the lessee (firm) pays little or no corporation tax, it will pass on the capital allowances to the lessor, part of which will be returned to the lessee through lesser rental payments. Also, there is the problem of double taxation as sales tax may be charged twice; first at the time of purchase of asset and second at the time of leasing the asset. Prior researches have been carried out on the effect of lease financing on financial performance in various sectors like banking, oil and gas and manufacturing sector, conglomerate and SMEs in Nigeria and abroad (Atseye et al., 2020; Bello et al., 2016; Khalil et al., 2017; & Munene, 2014). Asuquo et al. (2018) examined the effect of lease financing on corporate performance of deposit money banks in Nigeria and concluded that there is positive and significant relationship between finance lease; operating lease; equity finance; debt finance and corporate performance respectively. Likewise, Khalil et al. (2017) in their study on the impact of lease finance on performance of SMEs in Pakistan revealed a positive and significant association between Return on Assets and lease finance. Furthermore, Orabi (2014) in his study on the impact of leasing decisions on the financial performance of industrial companies revealed that there is no statistically significant effect of leasing index on companies' risks represented by financial leverage. Also, Kajirwa and Ikapel (2016) examined the effect of operating lease financing on the financial performance of State-owned sugar manufacturing firms in Kenya. Their study revealed that operating lease finance negatively affects return on assets. Based on the above studies, there exist inconsistent findings, and it is difficult to reconcile these two arguments in the case of the relevance of lease financing in Nigeria, especially when lease financing is argued as one of the major means by which some firms obtain some of the assets and equipment that are needed for effective operations. We concluded that there exists a gap to the best of our knowledge.

Therefore, this present research was set to fill this gap through an empirical investigation into lease financing on financial performance of listed construction and real estate companies on the Nigerian Exchange Group.

Conceptual Framework



Conceptual framework is an analytical tool that is used to make conceptual distinctions and organize ideas. It provides a structured way of presenting the concepts and the relationships between them that guide a research study or an academic paper. It's a way to establish a coherent structure for an argument that applies to your research. The conceptual above shows the relationship between the dependent and independent variable lease financing proxied by operating lease and financial lease while financial performance is proxied by net profit margin and return on equity.

Purpose of the Study

The purpose of the study was to investigate the effect of lease financing on financial performance of listed construction and real estate companies in Nigeria. The specific objectives are to:

1. Evaluate the effect of operating lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group.
2. Evaluate the effect of operating lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group.
3. Determine the effect of financial lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group.
4. Determine the effect of financial lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group.

Research Questions

The following research questions were raised:

1. What is the effect of operating lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group?
2. What is the effect of operating lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group?

3. What is the effect of financial lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group?
4. What is the effect of financial lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group?

Research Hypothesis

The following research hypotheses were formulated and tested in this study.

Ho_1: There is no significance effect of operating lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group.

Ho_2: There is no significance effect of operating lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group.

Ho_3: There is no significance effect of financial lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group.

Ho_4: There is no significance effect of financial lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group.

Literature Review

Theoretical Foundation

Agency Theory

The proponents of the agency theory are Jensen and Meckling in 1976. This theory was corroborated by various researchers (Abata & Migiro, 2016; Alotaibi, 2014; Darussamin et al., 2018; Walid & Ameur, 2013). It is called the agency theory because it involves the principal (shareholder) and the agent (management). As opined by Jensen and Meckling (1976), and Fama and Jensen (1983), an agency relationship occurs when the principal delivers decision-making authority to an agent to perform some services on the behalf of the principal. Shareholders (and debt holders) act as principals in seeking to obtain maximum utility from the actions of management (who serve as the agents). However, both parties in the relationship are utility maximizers and it is reasonable to believe that the managers will not always act in the best interests of the shareholders but will pursue self-interest creating the agency problem. As a result of having conflicting aspirations, both shareholders and managers incur monitoring and bonding costs respectively, known as agency costs. Agency conflicts can arise between bondholders and shareholders, between managers and Shareholders or between lessor and lessee and can lead to asset substitution and underinvestment. However, in case of short-term operational leases, agency costs may also arise between lessor and lessee due to the separation of ownership from usage of asset. Since the lessees have no right to the residual value of the asset, they have no incentive to take proper care of it. A study by Vasantha (2012) on capital market frictions, leasing and investment, revealed that consistent with the agency theory, lessee firms with higher information asymmetry rely on more lease financing. However, the evidence on agency costs is mixed. Also, firms with significant tax-loss forwards were unable to take full advantage of tax benefits of asset ownership, hence they leased more. The weakness of this theory is that it assumes that the agent needs to comply with the contractual agreement without considering ethics. This however is not the case in the current business environment as ethics and corporate governance are key issues to be complied with (Zogning, 2017). The theory considers that the agreement is for a defined or undefined period of time without considering the uncertainty of the future, it disregards the competency of the managers by emphasizing the opportunistic nature of the agents and it doesn't consider the many hindrances like fraud, information asymmetry and transactional costs that may still be present with the agency theory (Panda & Leepsa, 2017). Irrespective of the weakness of the agency theory, it is

relevant to this study because entailed that lease financing brings about increase in efficiency on the part of management of the firms, which in turn would likely contribute to the financial performance of the firms.

Conceptual Review

Lease Financing

Lease is an essential concept in business. Globally, leasing is regarded as an efficient and effective source of finance for capital formation. Start-ups or new small businesses often look for leasing options because their resources are limited, and owners of these businesses don't want to invest so much money in acquiring assets to support the business in the beginning. That's why they lease the assets whenever they require. Leases are a suitable financing option where substantial capital outlay is required for assets as obtains in technology-intensive industries (Abdulkarim et al., 2020). Al- Qaisi (2018) traced the origin of leases to the 1950s in the United States, its extension to Japan and Europe in the 1960s and thereafter, developing countries. According to IAS 17, a leasea greement is a contract between two parties, the lessor and the lessee. The lessor is the legal owner of the asset; the lessee obtains the right to use the asset in return for rental payments. Under leasing a company acquires the right to make use of an asset without holding title to it a lease, thus, is a written agreement for economic use of assets for a stated period of time. The lease agreement is signed by both the owner of the assets, called the lessor and the user, called the lessee. The lessor permits the lessee to use the asset for a specified payment but retains its title. It sets forth the period covered by the lessee, provides for payment of taxes, insurance, maintenance expenses and the like, and for renewal of the lease or purchase of the asset at the expiry of the agreement and the timing and amounts of periodic rental payments during the lease period.

Lease financing otherwise known as capital lease plays an important role to meet up the financial requirements of various sectors of an economy, and therefore contribute to the economic development of the country as well as to the growth of the country's financial system. Lease financing has been a popular means of financing over the years for entrepreneurs. It has to do with a situation whereby the asset required by the 'user company' (borrower) is purchased by the 'financing company' and let on lease over a period, on terms and rentals mutually agreed between them. Various courses are possible at the end of the lease tenure. Umar and Aliyu (2016) defined lease financing as an alternative mode or form of financing to the traditional debt and equity capital for the acquisition of capital assets by firms. In the view of Islam et al. (2014) lease financing enables leasing or renting the services of an asset rather than buying it. It is a contract whereby the owner of an asset (the lessor) grants to another party (the lessee) the exclusive right to use the asset, usually for an agreed period of time, in return for the payment of rent. Furthermore, Islam et al. (2014) asserts that the term lease finance is used in the sense of leasing business assets such as computers, manufacturing plants, ships, aircraft, cars, trucks; etc. This enables a business firm to use the services of an asset without buying it. Lease finance also covers the immovable property like buildings, factory sheds, office space, land, etc. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Accordingly, a lessor will continue to classify leases as either finance leases or operating leases applying IFRS 16, and account for those two types of leases differently. Leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments

Operating Lease

Operating lease is a lease where the risk and the return stay with the lessor. In other words, it is a commercial contract where the lessor allows the lessee to use an asset in place of periodical payments for a small period. An operational lease involves the lessee only renting an asset over a time period which is substantially less than the asset's economic life. According to Lorigan (2014) as cited by Kajirwa and Ikapel (2016) operating lease is a contract that allows for the use of an asset, but does not convey rights of ownership of the asset. The lessor is usually responsible for maintenance and insurance. The leasing agency retains ownership of the equipment during the lease and recovers its capital costs through multiple rentals and the asset's final sale (Islam et al., 2014). Operating lease payments must be recognized as expenses on a straight-line basis over the lease term, unless another systematic basis better represents the timing of benefits. Operating lease finance includes short term operating lease obligations, long term operating lease obligations and a combination of both short term and long-term operating lease finance obligations (Kajirwa & Ikapel, 2016). However, with the introduction of IFRS 16 that replaces IAS 17 on lease, it eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. This is also known as a service lease. Osaze (2017) defines an operating lease as a contract under which the asset is not wholly amortized during the primary lease and the lessor does not necessarily depends on the rental during the period for his returns but looks to the recovery of the balance of his cost and profits from resale of the used asset at the expiration of the lease period." This implies that the lessors in the operating lease simply purchase an asset and lease it out at any rate and term which does not entirely cover both cost, interest and profit. It also implies that the asset may be leased to a number of different lessees in sequence and thus the lease period does not cover substantially the economic usefulness of the leased property. When the expiration of the first lease period reaches, the asset can be leased to the same or another lessee at a new rental. The cancellable nature of an operating lease according to Weston and Brigham (2021) is beneficial factor for lessees. They argue that the implication of this clause is that the lessee can return the equipment if technological developments render it obsolete or if they no longer need it. In this line of analysis, Cantino (2010) referring to operating lease, posits that their short lease terms and easy cancellation provisions make operating leases attractive to users in several situations. One example is when the user anticipates using the equipment for a short time, such as with certain types of railcars or aircraft. Another is when the user wants the ability to change equipment if something better comes out. For this reason, users often lease computer equipment under operating leases because of constant technological improvements. 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 cancelable 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.

Financial Lease

Financial lease is a lease where the risk and the return get transferred to the lessee (the business owners) as they decide lease assets for their businesses. It simply means a commercial contract in which the lessor lets the lessee use an asset instead of periodical payments for the usually long period. This view is in line with the assertion of Orabi (2014) that financial lease depends on the transfer of all the risks and benefits of the underlying asset

to the lessee. The determination of the premiums includes rent benefits, so the lessee bears the cost of maintenance and insurance, as well as obsolescence or depreciation. Capital leases are sometimes used to refer to finance leases. According to Mohajan (2012) long-term, non-cancelable lease contracts are known as financial leases. It combines some of the benefits of leasing with those of ownership. Hence a finance lease is structured as a non-cancelable 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. Furthermore, Mohajan (2012) viewed financial leases as full-payout leases because payments during the lease term are amortize with the lessor's total purchase costs with a residual value of up to 5% of the original gaining price. Sometimes the present value of the minimum lease payment equals or exceeds 90% of the fair value of the leased property. Most financial leases are direct leases. The lessor buys the asset identified by the lessee from the manufacturer and signs a contract to lease it out to the lessee. Office building, multipurpose industrial building and even complete shopping centers are frequently financed with this method. Van Horne (2019) defines a finance lease as a non cancellable, usually multi-years contact in which the lease agrees to make a series of payment to a lessor for the use of an asset. The lessee acquires most of the economic values associated with outright ownership of the asset even though the lessor retains title to it. Long-term, non-cancelable lease contracts are known as financial leases (Kurfi, 2003). It combines some of the benefits of leasing with those of ownership. Hence a finance lease is structured as a non-cancelable 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). Osaze (2017) defines it as a lease contract in which the lessee is obligated to pay agreed rentals periodically to the lessor over the tenor of the lease in return for possession and use of the asset under a lease. In finance lease, the lessee is usually expected to be responsible for maintenance and servicing of the asset leased and may have the opportunity of either buying the asset at the expiration of the initial duration allocated or returning the asset to the lessor or extending the lease for a secondary duration beyond initial (primary) tenure.

Ownership and title to the leased asset is retained/ vested on the lessor, but all risks associated with the benefits accruing from the possession of the asset are substantially shifted to the lessee during the tenure of the lease. Johnson and Gentry (2018) brought more clarification by identifying the characteristics of finance lease as follow: There is no formal transfer of title when the risks and benefits of the ownership of the leased asset are passed to the lessee. The lessee pays for ownership expenses of the leased property such as insurance, taxes and maintenance. The lease is non-cancellable (unless some remote contingency forces the cancellation). It is fixed obligation to the lessee. The total payments of the rental will allow the lessor to have a full recovery of his investment plus a fair return on the investment. Therefore, finance lease is fully amortized and of long-term. The lessee could acquire the property at a lower price or extend the lease at a fair rental if the asset is not completely amortized. The American Financial Accounting Standard Board (2010) identified the following features and characteristics as relating to finance lease: The lessee becomes the owner of the asset when the lease period expires. There is provision for the purchase of the property at a cheap rate. The duration of the lease equates at least 75 percent of the estimated economic usefulness of the property. At least 90 percent of the fair value of the leased property is recovered by the lessor when the lease duration expires. This is more of a capital lease. Hence, under this kind of lease agreement, the benefits and risks accruable from ownership are transferred substantially to the user throughout the tenor of the lease whereas the owner still keeps the right on the asset. It also means that the lessee is to take an

undertaking to keep the equipment in good functioning condition, to keep it insures to its full replacement value and allow the lessor access for inspection. One of a financial lessor's principal concerns is the protection of its investment in the event of a lease default or an equipment casualty. Toward this end, finance leases usually include the provisions to make the lessor whole if any of these events occur (Contino, 2010). Rentals during this period are fixed such that the lessor recoups the total cost of his investment with the capital cost of the equipment, financing cost and all overheads. It is estimated that over 90% of the entire lease arrangements in Nigeria are finance leases with mostly commercial banks and merchant banks as major lessor

Financial Performance

Gregory and Mankiw (2018) reported that financial performance is measuring a company's operations and policies in monetary terms through the interpretation of financial statements. Eugene et al. (2016) stated that financial performance includes all measures that relate to the company's profits, health, and viability. It involves using financial data to assess a company's performance and make recommendations about how it can improve going forward. The financial performance of a business or an investment is the degree to which financial objectives as expressed in the strategic plan or investment policy have been achieved (Robert & Higgins (2012). Financial performance is a measure of how well a firm can use assets from its primary mode of business and generate revenues. It refers to the degree to which financial objectives being or has been accomplished. It's depicted by the level of profits generated by the investments and operations of the business. The financial performance is determined by measuring the results of the firm's policies and operations in monetary terms. Financial performance refers to the degree to which a firm can use its assets efficiently to generate revenues and maximize profit. It is generally measured by a variety of financial metrics and ratios that analyze profitability, liquidity, efficiency, and leverage (Higgins, 2012). These results are reflected in the firm's return on investment, return on assets, value added, etc. Key indicators of financial performance include: Net profit margin, gross profit margin, return on assets, return on equity, earnings per share, debt-to-equity ratio, current ratio, and quick ratio. Net profit margin measures the percentage of revenue left after all costs, debts, taxes and operating expenses have been deducted. The value given will show a company's overall profitability per unit of sales. Gross profit margin is a company's total sales revenue minus its cost of goods sold, divided by total sales revenue, expressed as a percentage. It represents the percentage of each dollar of a company's revenue available after accounting for cost of goods sold. Return on assets measures a company's profitability relative to its total assets and tells you what earnings were generated from invested capital (assets). Return on equity measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. Return on equity is expressed as a percentage and can be calculated as Net Income/Shareholder's Equity. Earnings per share indicate a portion of a company's profit allocated to each outstanding share of common stock. It's an important measure of a company's profitability. Debt to equity ratio measures a company's financial leverage by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. Current ratio measures a company's ability to pay short-term and long-term obligations, calculated as a company's total current assets by total current liabilities. Quick Ratio is also known as the acid-test ratio, it measures a company's ability to meet its short-term obligations with its most liquid assets, calculated as (Current Assets minus Inventories) by Current Liabilities. Companies regularly monitor and analyze their financial performance to identify trends, plan future actions, and make strategic decisions. Financial performance analysis can also be used by outside entities,

like investors and lenders, to evaluate a company's profitability, solvency, and risk level.

Net Profit Margin

The concept of net profit margin also known as profit margin or net profit margin ratio is a financial ratio used to calculate the percentage of profit a company produces from its total revenue. It is also seen as the percentage of revenue left after all expenses have been deducted from sales. The measurement reveals the amount of profit that a business can extract from its total sales. Net profit margin measures the amount of net profit a company obtains per naira of revenue gained. This view is supported by the assertion of Husaini (2012) that net profit margin is used to see the company's ability to generate net income from sales made. Net profit margin helps investors assess if a company's management is generating enough profit from its sales and whether operating costs and overhead costs are being contained. It is a key indicator of the financial health of an organization (Murphy, 2021). It is the ratio of net profits to revenues for a company or business segment. Because this sale is one of the most influential factors in promoting net profit (Khan & Khokhar, 2015). The greater the net profit generated by the company, the better the investor's view of the company. Samaila (2009) stated that net profit margin is a ratio that helps us to determine the quality of the overall profit made by the business after all the expenses have been paid. It is represented as a percentage and asks a simple question for every hundred naira of sales that a company made, how much was left as profit?". Calculating this ratio is relatively easy. It requires two primary items from a company's income statement (statement of financial performance). These items are: Total revenue (Total sales) – This number represents how much money a company was able to generate, in sales, during the accounting period under review. The period could be the company's last fiscal quarter, last fiscal year, or trailing twelve months. Net income (profit before tax) this represents how much money the company is able to retain from revenue, within the same financial period identified in the revenue section, after accounting for all expenses incurred within that same period. Sangmi and Nazir (2010) narrated that the ratio helps determine the quality of the profit made. It does this by assessing the company's expenses (or costs) relative to its revenue. To arrive at net profit, a company will subtract all expenses (its direct cost of doing business as well as other indirect general and operational costs) from its revenue. While the expenses are not stated in the net profit margin calculation, they are a big component of it. It, therefore, suggests that there is an inverse relationship between the company's expenses and its net profit margin. Olweny and Muthoni (2019) stated that if the expenses are high, the net profit margin will be low and vice versa. Another important factor to consider with net income margin is that it is tied to revenues, if a company is able to keep its costs constant but able to generate more revenue, it will have a higher profit margin. There is, therefore, a direct relationship between revenue and net profit margin. By looking at the ratio, investors can target companies that are able to generate more profits from their revenue. This is so because the higher net income margin entitles the investors to more dividends, ultimately. Whether the company decides to pay is an entirely different discussion (Orabi, 2014).

Return on Equity

Return on equity is an internal performance measure of shareholder value and is by far the most popular form of performance as it proposes a direct assessment of the financial return of a shareholders' investment; it is easily available for analysis; and relying upon public information; and it allows for comparison between different companies or different assets of the economy. It reveals how much profit a firm generates with money invested by shareholders. Return on equity is profit earned compared to the total value of shareholders

equity (Ongore & Kusa, 2013). Olowe (2011) opined that the ratio shows earnings power on share holders' book value investment. According to Ameur and Mhiri (2013) return on equity is the ratio of net profit to total equity; it represents the rate of return earned on the funds invested in the firm by its shareholders. It reflects how effectively a firms' management is using shareholders fund; it is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, a small amount of profit after tax could still produce a high Return on equity of a modest equity base. Due to its inherent defect, this profit measure should be used in combination with other profit measure. Equity is ownership of assets that may have debts of other liabilities attached to them. Equity is measured for accounting purposes by subtracting liabilities from the value of an asset. Return on equity is a measure of a business in relation to the equity. Finkelstein and D'Aveni 1994; Weir and Laing (1999) narrated that because shareholders equity can be calculated by taking all assets and subtracting all liabilities return on equity measure how many naira of profit are generated for each naira of shareholders equity. Return on equity is metric of how well the company utilizes its equity to generate profit. Epps and Cereola (2008) stated that return on equity is a measure of financial performance calculated by dividing net income by shareholders equity, because shareholders equity is equal to a company asset minus its debt. Chagbadari (2011) narrated that return on equity is considered a measure of the profitability of a corporation in relation to stockholders equity. Return on equity is expressed as a percentage and can be calculated for any company if net income and equity are both positive number. Net income is calculated before dividend paid to common shareholders and after dividends to preferred shareholders and interest to lenders.

Empirical Review

Obiero (2016) carried out an empirical investigation on the effects of lease financing on the financial performance of companies listed on Nairobi securities exchange. The study adopted the ex post facto research design. The population consisted all the 65 registered companies at Nairobi securities exchange. All firms listed at Nairobi securities exchange had not reported use of lease, but only 33 firms which had reported use of lease financing and their secondary data for the period between the years 2011–2015 was obtained from annual financial reports of the firms. The gathered data from the annual reports and financial statements was evaluated using Statistical Package for Social Science version 20. A reversion examination was carried out on the data set to regulate the significant effect of lease business on the ROA (measure of financial performance) for firms listed at Nairobi securities exchange. The results from regression analysis showed that lease financing and liquidity having positive effects on ROA whereas size and leverage had negative effects on ROA.

Olweny and Muthoni (2019) in their study examined the effect of lease finance conditions on the financial performance of small and medium sized enterprises in Kenya. The study used descriptive research design as it sought to establish the relationship between the independent and dependent variables. The target population of this study was 308 SMEs from Nairobi County and in different sectors of the economy. The researchers sought to get information from the finance managers of these 308 SMEs in Nairobi. Stratified random sampling was used. The researchers divided the population according to the economic sectors from which representative samples were selected. The research therefore relied on a sample of 102 respondents. Data collection was done through questionnaires and analyzed. A correlation test was conducted and the study employed the use of T-Tests and Chi Square tests to determine the extent to which the variables are related and to test the assumption of

normality. A multiple linear regression was conducted for the stud y with the aid of SPSS. The study concluded that for the SMEs to acquire a good cash flow developed from its increased liquidity they must embrace flexible lease charges. Flexible lease charges improve company's budgetary planning and even its control which are the desired ingredients for financial performance of SMEs.

Mburu and Ngatia (2017) examined the factors affecting lease financing in the manufacturing industry in Kenya. Their study also sought to determine the effects of access to information, financial resources and tax shield on lease financing in Kariobangi Light Industries. The descriptive research design was adopted for the study with a target population of 300 managers/owners in the firms in Kariobangi Light Industry. The researchers used a stratified random sampling to select 30% of the target population. The sample size of the study was 90 respondents. The study used primary data which was collected by use of self-administered questionnaires. Content analysis was used in processing of the data and results were presented in prose form. The quantitative data was analyzed by use of descriptive and inferential statistics by use of Statistical Package for Social Sciences (SPSS). Descriptive statistics such as mean, frequency, standard deviation and percentages was used to profile sample characteristics and major patterns emerging from the data. Further, multivariate regression analysis was used to establish the relationship between the dependent and the independent variables. The study also revealed that financial resources influence lease financing in organizations in the manufacturing industry most followed by access to information and tax shield. The study therefore recommended that leasing companies should hold seminars for manufacturers and train them on the benefits of lease financing. Also, that small manufacturer should adopt leasing financing so as to benefit from tax benefits.

Nuryani et al. (2015) carried out a study on capitalization of operating lease and its impact on firm's financial ratios. The study examined the determinants of operating lease policies (i.e. financial constraint, asset value, growth, and firm's size), and the impact of constructive capitalization of operating lease towards company's financial ratios. Secondary data was used in the study and obtained from 343 companies listed in Indonesia Stock Exchange (IDX) for the period 2008-2011. Sample size of 19 companies was obtained by eliminating numerous companies that do not take operating lease or do not disclose operating lease commitment continuously during the observed period. The finding showed that all determinants except financial constraints influence operating lease policies but most of operating leases is explained by factors other than the economic determinants. To restrict the abuse of operating lease that mislead users of financial statements, then operating lease should be capitalized. This study also revealed that operating lease capitalization significantly impacts firm's financial ratios which are useful in decision making. The study recommended that regulator and standard setters are expected to extend the scope regulations by requiring companies to disclose their operating lease in entirety. Requiring companies to disclose alternative cost of borrowings and remaining life of lease portfolio will increase the benefit of information on operating lease in decision making. Moreover, voluntary disclosure of present value of lease commitment in notes to financial statements can reduce accounting practices that hide debts and reduce bias that erode reliability of financial statements. Furthermore, rules related to operating lease must be enforced and monitored for compliance.

Research methodology

The population of the study consists of six quoted construction and real estate firms. The study adopts expo facto research design. The reasons being that the factors of lease financing

and financial performance are already existing as reported in the financial statement of listed construction and real estate companies on the Nigerian Exchange Group the researcher decided to use the entire population to represent the sample size using the census approach or sampling technique. Data for this study were sourced through the secondary source. This was possible through the published financial report of the selected listed construction and real estate companies for the period of 2011-2020. The study adopts the use of multiple to test the postulated null hypotheses on the effect of lease financing on financial performance at 0.05 level of significance computed within Stata12 software. Lease financing was proxied by operating lease and finance lease while financial performance was proxied return on equity and net profit margin. Operating lease measured by operating lease to total asset index. Financial lease measured by finance lease to total asset index. Net profit margin proxied by the percentage of profit a company produces from total revenue. Return on Asset proxied by the effectiveness of the company in generating profit by exploiting its assets. Return on Equity proxies by a percentage of a company's profits generated with money invested by shareholders. Decision Rule Accept H_0: if the p-value of the independent variable is greater than 0.05. Reject H_0: if the p-value of the independent variable is less than 0.05. If the p-value of the independent variable is less than 0.05, then it means that the variable is significantly contributing to the variations in the dependent variable vice versa.

Model Specification

Mathematical model to express the relationship that exist between these variables.

FP= f (OPL + FIL +it) - - - - - - - - (3.1)

NPM_{it} = f (OPL + FIL +it) - - - - - - - (3.2)

ROE_{it} = f (OPL + FIL +it) - - - - - - - (3.3)

Therefore, the model appears thus;

$NPM_{it} = \beta_0 + \beta_1 OPL_{it} + \beta_2 FIL_{it} + \varepsilon_{it}$ - - - - - - (3.4)

$ROE_{it} = Z_0 + Z_1 OPL_{it} + Z_2 FIL_{it} + \varepsilon_{it}$ - - - - - - (3.5)

Where:

NPM = Net profit Margin

ROE = Return on Equity

OPL = Operating Lease

FIL = Financial Lease

$_{it}$ = Regression Constant

β_0, μ_0, Z_0 = Regression Coefficient

ε = Stochastic term

Data Presentation and Discussion of Findings

Table 4.1: Regression on the effect of operating lease on net profit margin of listed construction and real estate companies in the Nigerian Exchange Group

					No. of observation = 53	
					R-squared = 0.4402	
NPM	Coefficient	Robust Standard Error	t	P>|t|	[95% Conf. Interval]	
OPL	.001058	.0014107	0.75	0.457	-.0017769	.0038929

CONSTANT	360.3374	156.241	2.31	0.025	46.35937	674.3154

Source: Output from STATA version 12

From table 4.1 above, the result of the data regressed on operating lease on net profit margin shows a positive but insignificant effect of operating lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group (p-value= 0.457). It means that a 1% increase in operating lease will bring about a .0011% increase in net profit margin all other variables are held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that "There is no significant effect of operating lease on net profit margin of listed construction and real estate companies in the Nigerian Exchange Group.

Table 4.2: Regression on the effect of operating lease on return on equity of listed construction and real estate companies in the Nigerian Exchange Group

No. of observation = 53						
R-squared = 0.3776						
ROE	Coefficient	Robust Standard Error	T	P>|t|	[95% Conf. Interval]	
OPL	.0022744	.0016847	1.35	0.183	-.0011111	.0056599
CONSTANT	157.5211	130.6885	1.21	0.234	-105.1073	420.1496

Source: Output from STATA version 12

From table 4.2 above, the result of the data regress on operating lease on return on equity shows a positive but insignificant effect of operating lease on return on equity of listed construction companies on the Nigerian Exchange Group (p-value= 0.183). It means that a 1% increase in operating lease will bring about a .0022744% increase in return on equity all other variables are held constant. Since the p-value of the independent variable is greater than 0.05, we therefore accept the null hypothesis that "There is no significant effect of operating lease on return on equity of listed construction and real estate companies in the Nigerian Exchange Group.

Table 4.3: Regression on the effect of financial lease on net profit margin of listed construction and real estate companies in the Nigerian Exchange Group

No. of observation = 53						
R-squared = 0.4402						
NPM	Coefficient	Robust Standard Error	T	P>|t|	[95% Conf. Interval]	
FIL	4.26e-06	2.71e-06	1.57	0.041	-1.18e-06	9.71e-06
CONSTANT	360.3374	156.241	2.31	0.025	46.35937	674.3154

Source: Output from STATA version 12

From table 4.3 above, the result of the data regress on financial lease on net profit margin shows a positive and significant effect of financial lease on net profit margin of listed construction and real estate companies on the Nigerian Exchange Group (p-value= 0.041). It means that a 1% increase in financial lease will bring about a 4.26% increase in net profit margin all other variables are held constant. Since the p-value of the independent variable is less than 0.05, we therefore reject the null hypothesis and conclude that "There is a significant effect of financial lease on net profit margin of listed construction and real estate companies in the Nigerian Exchange Group.

Table 4.4: Regression on the effect of financial lease on return on equity of listed construction and real estate companies in the Nigerian Exchange Group

				No. of observation = 53		
				R-squared = 0.3776		
ROE	Coefficient	Robust Standard Error	T	P>|t|	[95% Conf. Interval]	
FIL	1.36e-06	1.95e-06	0.70	0.488	-2.55e-06	5.27e-06
CONSTANT	157.5211	130.6885	1.21	0.234	-105.1073	420.1496

Source: Output from STATA version 12

From table 4.4 above, the result of the data regress on financial lease on return on equity shows a positive but insignificant effect of financial lease on return on equity of listed construction and real estate companies on the Nigerian Exchange Group (p-value= 0.488). It means that a 1% increase in financial lease will bring about a 1.36% increase in return on equity all other variables are held constant. Since the p-value of the independent variable is less than 0.05, we therefore accept the null hypothesis that there is no significant effect of financial lease on return on equity of listed construction and real estate companies in the Nigerian Exchange Group.

Discussion of findings

Operating lease and net profit margin of listed construction and real estate companies on the Nigerian Exchange Group.

The study revealed a positive but insignificant relationship between operating lease and net profit margin of listed construction and real estate companies on the Nigerian Exchange Group (p-value= 0.457). This finding may be as a result of the fact that operating lease are commercial contract where the lessor allows the lessee to use an asset in place of periodical payments for a small period. The lessor is usually responsible for maintenance and insurance. The leasing agency retains ownership of the equipment during the lease and recovers its capital costs through multiple rentals and the asset's final sale (Islam et al., 2014). This finding is in accordance with the findings of Nuryani et al. (2015) that revealed that all determinants except financial constraints influence operating lease policies but most operating leases are explained by factors other than the economic determinants. Also, this finding is in line with the finding of Olweny and Muthoni (2019) that revealed that for the SMEs to acquire a good cash flow developed from its increased liquidity they must embrace

flexible lease charges. This finding is in disagreement with the work of Orabi (2014) that revealed that lease financing measured by lease index has a statistically significant effect on the profitability of companies measured by net profit margin. This finding further disagrees with the work of Asuquo et al. (2018) that revealed a positive and significant relationship between finance lease; operating lease; equity finance; debt finance and corporate performance respectively. This finding implies that operating lease constitute little of listed construction and real estate companies in Nigeria as most their leasing arrangement is financial lease. This finding is supported by the trade-off theory that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The theory when applied to this study posed a question of how much debt including lease option should betraded for equity to enhance the financial performance of listed construction and real estate companies in Nigeria.

Operating lease and return on equity of listed construction and real estate companies on the Nigerian Exchange Group.

The study revealed a positive but insignificant relationship between operating lease and return on equity of listed construction and real estate companies on the Nigerian Exchange Group (p-value= 0.183). This finding is in line with the finding of Kibuu (2015) that revealed that lease financing had positive, but insignificant effects on financial performance. This finding is corroborated by the finding of Umar and Aliyu (2016) who found that lease financing does not have significant impact on the financial performance of oil and gas companies in Nigeria. This finding disagrees with the finding of Khalil et al. (2017) that revealed a positive and significant association between Return on Equity. This finding further disagrees with the finding of Hassan (2009) that revealed that finance lease has significant positive impact on the profitability of Nigerian banks.

Financial lease and net profit margin of listed construction and real estate companies on the Nigerian Exchange Group.

The study showed a positive and significant relationship between financial lease and net profit margin of listed construction and real estate companies on the Nigerian Exchange Group (p-value= 0.041). This finding may be as a result of the fact that financial lease combines some of the benefits of leasing with those of ownership thereby giving the firm access to fully utilize this asset for enhance financial performance. This finding is in line with the finding of Asuquo et al. (2018) that revealed a positive and significant relationship between finance lease; operating lease; equity finance; debt finance and corporate performance respectively. This finding is in contrast with the finding of Winfred (2014) that revealed that there is no influence from lease financing on the financial performance. In the same vein, this finding contradicts the finding of Munene (2014) that revealed that lease financing does not affect the monetary performance of registered companies in Kenya. This finding implies that the net profit margin of listed construction and real estate companies has experienced immense increase due to its use of financial lease as an alternative source of financing. This finding is supported by the *pecking order theory* because by examining *leasing* within a *pecking order* framework, profitability and growth are introduced as potentially *important* determinants of *leasing.*

Financial lease and return on equity of listed construction and real estate companies on the Nigerian Exchange Group.

The study revealed a positive but insignificant relationship between financial lease and return on equity of listed construction and real estate companies on the Nigerian Exchange Group(p-

value= 0.488). This finding is in line with the finding of Umar and Aliyu (2016) that concluded that lease financing does not have significant impact on the financial performance of oil and gas companies in Nigeria. This finding further agrees with the finding of Winfred (2014) that concluded that there is no influence from lease financing on the financial performance. Salam (2013) revealed a positive correlation between lease finance and Return on equity/return on assets. This finding is corroborated by the finding of Olabisi et al. (2015) that profitability has a significant relationship with leasing decision and business size has a negative significant relationship with leasing decision. This goes to show that construction firms that utilize financial lease enhance its returns on equity as compared to those that do not. This assertion is supported by the finding of Nyachieng'a (2012) that revealed that lack of adequate knowledge prevented SMEs from generating lease from banks or leasing companies due to their weak accounting standards. Furthermore, Mutune (2016) concluded that leasing services were valuable to the organizations and they were greatly used in ICT, Finance, human resource and administration. This finding is in contrast with the finding of Umar and Aliyu (2016) that concluded that lease financing does not have significant impact on the financial performance of oil and gas companies in Nigeria. This finding further disagrees with the finding of Winfred (2014) that concluded that there is no influence from lease financing on the financial performance.

Conclusion and Recommendations

One of the major problems of businesses these days is how to finance their asset in relatively cheaper way. Management decisions consequently revolve around sources and investment channels of finance in the course of ensuring optimum discharge of its primary responsibility to the stakeholders of an entity. There are various funding means which firms can subscribe to in the money and capital market institutions albeit, contingent on their nature (whether listed or unlisted) as well as the purpose and duration for which the finance is required (short, medium or long term). Lease comes in to fill in that vacuum. Leasing is an alternative means of financing plant, equipment and business vehicles. It 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. Leasing mitigates underinvestment problems by enabling capital expenditures and reducing the sensitivity of investment expenditures to availability of internal funds. Different choices are available to organizations to take decisions regarding capital structure of the organizations like “Lease or Borrow”, and “Lease or Buy”. In conclusion, this study revealed that lease financing has an insignificant effect on the financial performance of listed construction and real estate companies in Nigeria while financial lease has a significant effect on net profit margin of listed construction and real estate companies in Nigeria. Based on the findings, and conclusions of this study, the following recommendations are made: Listed construction and real estate companies should reduce the proportion of operating lease finance in their operations as evidence suggests it negatively affects financial performance (net profit margin). Listed construction and real estate companies should embrace lease financing as a method of financing their operations as evidence suggests that value is added through the use of lease financing. Listed construction and real estate companies that use lease financing are urged to compare between the lease expense and amortization rate before embarking on a rental asset. Policymakers should increase tax shield for leasing products so as to encourage firms to make use of leasing financing rather than having high credits. Construction and real estate companies that use high leverage levels are urged to develop plans and programs for high productivity rates and get rid of idle equipment in order to enhance financial performance of the company and reduce financial risks.

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