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Effect of Lease Financing on the Financial Performance of Listed Consumer Goods Companies in Nigeria

Hafsat Muhammad Sani[1]*
Halimatu Sa'adiya Abubakar[1]
Sulaiman Abubakar Muhammad[2]

[1]*Department of Accounting, Nasarawa State University, Keffi, Nigeria*
[2]*Department of Business Administration, Nasarawa State University, Keffi, Nigeria*
**Correspondence Email : hafsatmuhammads@nsuk.edu.ng*

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Abstract
This study examines the effect of lease financing on the performance of Listed Consumer Goods Companies in Nigeria. The ex-post factor research design was adopted with a sample of seven listed consumer goods companies who reported lease covering the period of implementation of IFRS 16, that is, from 2019-2022 was selected. Data were collected from secondary sources through the annual reports and accounts of the listed consumer goods companies in Nigeria. The study used pooled OLS (ordinary Leased Squares) to analyzed the data. The study used value of lease contract (right of use asset) to measure lease which is the independent variable and ROA as measure of financial performance. The findings showed that Lease finance showed a negative but significant effect on ROA of consumer goods companies in Nigeria. The study therefore recommends that Consumer goods companies should focus on improving their lease management practices to ensure efficient utilization of leased assets. This may involve implementing robust tracking systems, optimizing lease terms, and renegotiating lease agreements where necessary to better align with business objectives as it has shown negative effect on financial performance.

Keywords: Lease Financing, Lease Contract, Financial Performance, Consumer Goods Sector, Nigeria.

1.0 Introduction

The IASB has developed a new Leases Standard, IFRS 16, which supersedes IAS 17 Leases. The IASB worked jointly with the FASB on this project. The FASB expects to publish its new Leases Standard in early 2016. A company is required to apply IFRS 16 from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. The IASB and the FASB have reached the same conclusions in many areas of lease accounting, including requiring leases to be reported on the balance sheet, how to define a lease and how lease liabilities are measured. The IASB and the FASB also both agreed to substantially carry forward the previous lessor accounting requirements.

The financing choices made by firms have generated significant interest from both scholars and practitioners due to their effect on capital structure, dividend policies, and capital budgeting decisions. (Atseye et al., 2020; Salam, 2013; Awwad & Ruzieh, 2021). Leasing, as a financial strategy, involves obtaining the right to use an asset for a specified period without owning it outright. In the context of consumer goods companies, this could include leasing manufacturing equipment, distribution facilities, or even retail spaces. Understanding the effect leasing decisions on financial performance is crucial for both investors and company management.

The highly competitive business landscape drives companies to employ diverse strategies aimed at cutting expenses and optimizing profits. To seize opportunities and streamline operational costs, businesses often choose lease options when making financial management choices. Lease have emerged

as a viable financial strategy for companies to overcome challenges such as limitations in terms of available capital for upfront investments in assets, lack of flexibility in asset usage and scaling operations accordingly by providing flexible and cost-effective access to essential assets.

The consumer goods industry plays a pivotal role in Nigeria's economy, contributing significantly to employment, revenue generation, and economic growth. Consumer goods companies face numerous challenges in their pursuit of sustainable growth and profitability, including limited access to capital and the need for substantial upfront investments in assets such as manufacturing plants, distribution networks, and equipment (Competition and Consumer Protection Commission (CCPC).

Consumer goods companies rely heavily on efficient supply chains, timely delivery of goods, and effective distribution networks. Lease options can provide these companies with access to necessary assets, such as warehouses, vehicles, and production equipment, without tying up capital. Furthermore, lease options offer flexibility, allowing companies to upgrade or modify assets according to market demands. Several studies have been conducted on leasing with respect to firms' performance and profitability of manufacturing companies, industrial companies banking industries, etc. (Umar et al., 2016; Alazzam, 2015; Orabi, 2014; Salam, 2013; Aurangzeb and Shujaat, 2012; Jabbarzadeh et al., 2012; Hassan, 2009; Sama'ila, 2009 among others) in different countries. Most of the research with respect to leasing and financial performance of firms in Nigeria were carried out on different sector of the Nigerian economy. For instance, Umar et al., 2016 carried out research in oil and gas industries in Nigeria (2016), Akinbola and Otokiti carried out research in profitability on SMEs (2012), Hassan (2008), conducted a research on Nigerian banks (2009), Sama'ila (2009), carried out a research on conglomerate companies, Kurfi (2009) on selected manufacturing firms. Also, Ayoola et al., (2022) examined Lease Financing and Financial Performance of Listed Manufacturing Companies in Nigeria. Thus, the main objective of this research is to assess the effect of Lease Financing on the financial performance of listed consumer goods companies in Nigeria.

2.0 Literature Review and Hypotheses Development

Hameed and Bello (2023) conducted an empirical investigation of lease financing and financial performance of conglomerates firms listed in Nigeria stock exchange from 31st December, 2006 to 31stDecember, 2021. The research utilized secondary data extracted from the annual audited financial statements and reports of five listed conglomerates leasing manufacturing companies (CLCs). Financial performance was assessed using return on assets, while lease financing was gauged through metrics such as total lease and the turnover index of fixed assets to total assets. Employing an ex-post facto research design alongside a longitudinal panel comprising both time series and cross-sectional data, the analysis involved descriptive statistics and regression analysis. The findings revealed a significant positive correlation between total lease and financial performance, as well as between fixed assets and financial performance. Conversely, there was a significant negative correlation between total assets turnover and financial performance. Consequently, the study recommends that regulatory bodies, including the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC), focus on policy reforms aimed at optimizing the utilization of total assets turnover to enhance the financial performance of conglomerates leasing manufacturing companies in Nigeria.

Ayoola and Ayoride (2022) examined the effect of lease financing on the financial performance of listed manufacturing companies in Nigeria from 2011-2021. The study used secondary data and pooled OLS to carry out analysis. The study finds out that lease financing has positive but insignificant effect on profit

after tax. It was recommended that lease finance should be extensively explore by manufacturing companies.

Celestine and Chibuike (2022) examined the effect of lease financing on the financial performance of pharmaceutical companies listed in Nigeria between 2016 and 2021. Lease financing served as a proxy for the independent variable, while Return on Assets (ROA) was used as indicator of financial performance. Multiple regression analysis was employed, and the calculations were carried out using Stata12 statistical software. The findings of the study revealed that there was no significant effect on return on assets of pharmaceutical companies in Nigeria. Based on these results, the study recommended that pharmaceutical companies in Nigeria should consider increasing their reliance on lease finance in their operations. This suggestion stems from the observation that lease financing had a non-significant and negative effect on financial performance.

H1: Total Lease has no significant effect on the performance of listed consumer goods companies in Nigeria.

Theoretical Framework

Capital Structure Theory: The use of lease financing can impact a company's capital structure by increasing its financial leverage. This can increase the cost of capital for the firm and potentially limit its access to future debt financing (Modigliani & Miller, 1958). Lease financing can be an attractive alternative to traditional debt financing as it allows firms to acquire assets without incurring large upfront costs. This can be particularly beneficial for firms with limited financial resources or high levels of existing debt (Graham & Harvey, 2001). Lease financing provides companies with an additional source of funding and can help to diversify their funding sources. However, the use of lease financing should be carefully evaluated in light of the company's existing capital structure and financial goals (Myers, 1984). The optimal capital structure for a company is one that balances the benefits and costs of different sources of financing, including lease financing. Companies should evaluate their financing options based on their existing debt levels, cash flows, and growth prospects (Brigham & Daves, 2012). Lease improved return on assets as it allows firms to utilize assets without fully depreciating them.

3.0 Methodology

This study adopted Ex-post facto research design because it used documentary data of the study population which was extracted from the annual reports and accounts of the sampled consumer goods companies for the period 2019 to 2022. The population of this study comprised the entire consumer goods companies as listed in the Nigerian Exchange Group (NGX) as at 2022. The sampling techniques employed in this study is the purposive sampling of the non-probability sample base. Purposive sampling involves deliberately selecting specific individuals or elements from the population that meet certain criteria. On the filter that for an industry to be selected for the study, it must meet three requirements:

i. The company must be listed on the floor of the Nigerian Exchange Group on or before 1st January, 2019 so that it will have a complete set of annual report.
ii. The company must report its financial report for the period under study.
iii. The company must engage in lease so that data for the independent variable be obtained.

Table 1: sample size of the study

S/N	Companies	Year of Listing	Company Code
1	Cadbury Nigeria PLC.	January 1, 1970	1
2	Dangote Sugar Refinery PLC.	March 8, 2007	2
3	Guinness Nigeria PLC	January 2, 1965	3
4	Nestle Nigeria PLC.	April 20, 1979	4
5	Nigerian Brew. PLC.	September 5, 1973	5
6	Nigerian Enamelware PLC.	February 18, 1974	6
7	Unilever Nigeria PLC.	April 1, 1973	7

Source: Researcher's Compilation, 2023.

Model Specification

The study uses pooled OLS was used in evaluating the data. The model of the study is depicted below

$ROA_{it} = \beta_{0it} + \beta_1 LF_{it} + \beta_2 FMS_{it} + \beta_3 AGE_{it} + \varepsilon_{it}$ ---------- (i)

where:

ROA_{it}= Return on Assets of consumer goods companies i at time t.

LF_{it}= Value of lease contract of listed consumer goods companies i at time t.

FMS_{it}= Firm Size of listed consumer goods companies i at time t.

AGE_{it}= Date of incorporation of listed consumer goods companies i at time t.

ε_{it}. = Error term of listed consumer goods companies i at time t

β_0 = Constant

β_1, β_2 and β_3 = Coefficients for independent variable.

Table 2: Variable Measurement

Variable	Acronyms	Measurement	Author
Dependent Variable: Return on Asset	ROA	It is measured as (Net profit/Total Assets).	Atseye et al. (2020) and Orabi (2014)
Independent Variable Lease Finance	LF	Measures as the value of lease contract (right of use asset) as reported in the financial statement. Measured as right use of assets/ total asset	Celestine and Chibuike (2022)
Control Variable: Firm Size	FMS	Natural logarithm of total assets = logTA as reported in the financial statement of listed consumer goods companies in Nigeria.	Atseye et al. (2020)
AGE	AGE	It is the date of incorporation of the listed consumer goods companies in Nigeria.	Celestine and Chibuike (2022)

Source: Researcher's Compilation, 2023.

4.0 Results and Discussion

The results from descriptive statistics, correlation analysis and panel regression analysis are expressed below:

Descriptive Statistics

Descriptive statistics was used in this work to described the basic features of the variables. It shows Mean and their standard deviation and minimum and maximum value of the variables.

Table 3: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max	Skew.	Kurt.
LF	28	0.019	0.037	0.004	0.122	2.059	5.40
FMS	28	10.162	1.528	7.459	11.793	-0.061	1.781
AGE	28	62.29	23.71	17	99	-0.462	2.952
ROA	28	0.033	0.081	-0.098	0.236	0.371	2.857

Source: STATA Output, 2023.

From the result in the Table 3, Return on asset has a mean of 0.033, maximum of 23% and minimum of -9%. Lease financing shows a mean of 0.018, maximum of 12% and minimum of 4%. Firm size has a mean of 10.16, maximum of 11.79 and minimum of 7.46. AGE has a mean of 62.29, maximum of 99 and minimum of 17.

Table 4: Correlation Matrix

	ROA	**LF**	**FMS**	**AGE**
ROA	1.0000			
LF	-0.5527	1.0000		
	0.0023			
FMS	-0.1465	-0.0888	1.0000	
	0.4571	0.6532		
AGE	-0.4898	-0.0214	0.1332	1.0000
	0.0082	0.9138	0.4991	

Source: STATA Output, 2023.

Table 4 shows the correlations between the variables of the study. Return on asset has a negative but average relationship with lease financing which stood at -0.55 and is statistically significant at 1% level of significance. This result implies that as lease financing increases, return on asset also increases by 55%.

Table 5: Hausman Specification

	fe	re	Prob>chi2
LF	-1.967136	-1.305093	0.6971
FMS	-0.0777333	-0.0088633	

Source: STATA Output, 2023.

The p-value of the Hausman Test in table 5 is 0.69 which is greater than 0.05. This is statistically insignificant hence we accept the null hypothesis that random effect is appropriate. Thus, random effect model is adopted.

Table 6: Heteroscedasticity Test

Chi2(1)	2.94
Prob>chi2	0.0865

Source: STATA Output, 2023.

Table 6 indicates that the probability of chi-square of the White Test is 0.0865. This is higher than 0.05 hence we reject the null hypothesis that the residuals are not homoscedastic. This indicates that the variance of the error term is constant, implying that there is no heteroscedasticity.

Table 6: Langragian Multiplier

Chi2(1)	6.69
Prob>chi2	0.0048

Source: STATA Output, 2023.

Due to the nature of the data being a panel data, the study was obliged to run both fixed effect and random effects regression test. Sequence to the above, the Hausman fixed test revealed a chi-square probability of 0.6971 which are greater than 0.05 and hence necessitated the choice of the random effect model. In addition, the langrage multiplier (LM) test also showed a chi-square probability greater than 0.05 (6.69<0.05) which supports the interpretation of the ordinary least square (OLS) model against the random effect model. However, post estimation test of heteroscedacity revealed that the prob.chi-square of the White Test is 0.0865. This is higher than 0.05 hence we reject the null hypothesis that the residuals are not homoscedastic. This indicates that the variance of the error term is constant, implying that there is no heteroscedasticity. In addition, skewness and kurtosis test for normality of residuals revealed that the residuals are normally distributed (0.1402>0.05. (see appendix)

Table 7: Pooled OLS Regression

ROA	Coef.	Std. Err.	t-value	p>/t/	R- squre
LF	-1.263	0.294	-4.30	0.000	0.5745
FMS	-0.007	0.0071	-0.99	0.334	
AGE	-0.0016	0.0005	-3.61	0.001	
Cons	0.2316	0.0756	3.07	0.005	

Source: STATA Output, 2023.

The results in table 7 indicates that the value of r-square stood at 0.5745 which indicates that 57% of the variation in return on assets (ROA) is explained by leasing captured in this study while the remaining 43% is explained by other variables not captured.

On the other hand, Table 7 indicates that, lease financing has a negative effect on return on asset and the relationship is statistically significant. The coefficient is 13% and the t-value stood at -4.30 with the probability of the t-statistic pegging at 0.000 which is greater than 0.05. A negative effect indicates that the higher the lease financing of consumer goods companies, the lower the return on asset. Therefore, the study rejects the null hypothesis and accepts the alternate hypothesis. This is to say that there is significant effect of lease financing on return on assets of listed consumer goods companies in Nigeria. This study conformed to the findings Atseye, et al., (2020) but in contrary with findings of Celestine and Chibuike (2022) who found that lease financing has an insignificant effect on financial performance of businesses.

5.0 Conclusion and Recommendations

The examination of the effect of total lease obligations on the financial performance of listed consumer goods companies in Nigeria has revealed a significant negative effect. Despite this negative effect being statistically significant. Consumer goods companies should focus on improving their lease management practices to ensure efficient utilization of leased assets. This may involve implementing robust tracking systems, optimizing lease terms, and renegotiating lease agreements where necessary to better align with business objectives.

Companies should establish mechanisms for continuous monitoring and evaluation of lease arrangements and their effect on financial performance. This includes regularly reviewing lease agreements, conducting financial performance analyses, and adjusting strategies as needed to adapt to changing market conditions and business dynamics. By implementing these recommendations, consumer goods companies in Nigeria can better navigate the complexities of lease arrangements and optimize their financial performance in the long term.

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