Lease Arrangements and Financial Performance of Breweries in Nigeria

Gospel J. Chukwu* George C. Wadike
Department of Accountancy, Ken Saro Wiwa Polytechnic, Bori, Rivers State, Nigeria

Abstract
This study investigates the relationship between lease arrangements and the financial performance of breweries listed on the Nigerian Stock Exchange. Using an ex-post facto research design, and a study period of ten years (2008 – 2017), the study analysed data on earnings per share and net assets per share of four breweries in Nigeria. A comparison of the performance of selected firms based on the nature of lease arrangements and the intensity of involvement in leasing transactions, using t-statistics, showed that firms that engaged in diversified lease arrangements performed better than those that implemented only one form of lease arrangement; and firms that were more actively involved in lease arrangements were better in both earnings per share and net assets per share than firms that were less active in lease transactions. Accordingly, it is recommended that listed breweries should consider the benefits available in lease financing and should more actively engage in beneficial lease arrangements.
Keywords: operating lease, finance lease, lease arrangements, earnings per share, net assets per share, breweries

1. Introduction

The business environment is so competitive that firms have to seek for strategies that will enable them succeed. One strategy that is often recommended is the implementation of effective financial management in order to drive down the cost of operations and efficiently utilize available resources (Porter, 1985). In making such financial management decisions some firms consider different forms of lease arrangements that will improve cash management, finance asset acquisition, and in some cases, provide tax advantages for a firm (Bell & Thomas, 2013). Because of its usefulness in asset financing, lease arrangements are desirable by firms in developing countries; especially firms in economies going through recession and other financial crises.

In Nigeria, the leasing industry is on the upward trend as it recorded deals amounting to nearly N1.5 trillion as of 2017; an increase of about 15 per cent from the N1.26 trillion recorded in 2016 (Orimisan, 2018). The more favoured form of lease arrangement is finance lease as it accounts for over 60 per cent of the lease transactions in the country, while the balance is attributable to operating leases. Although, operating leases have lower proportion compared to finance leases, there is increasing market for operating lease arrangements and it is preferred by some lessors in Nigeria (Orimisan, 2018).

One motivation for the increasing lease transactions is the depreciated value of the naira which has increased the cost of outright asset acquisition (Orimisan, 2018). Given the current state of the Nigerian economy it is reasonable to expect that the leasing industry will still grow in the future, and the two forms of lease arrangements – finance leases and operating leases – will still persist in the Nigerian economy and may have different levels of association with profitability. Laitinen (1991) has noted that the effect of lease arrangements on profitability is ambiguous, and may depend on the nature of the lease arrangement.

Some studies have examined how leasing choices affect profitability. Biourjade, Huc and Muller-Vibes (2017) investigated how leasing choices impact world-wide airline operators, while Bello, Ahmad and Aliyu (2016) focused on the oil and gas industry in Nigeria. We are not aware of any study that examined the association of leasing with earnings per share and net assets per share based on the nature and extent of leasing transactions in the brewery industry in Nigeria.

Accordingly, this study intends to fill the gap in literature with the following objectives:

(1) To examine how earnings per share as well as net assets per share of breweries is associated with the nature of lease arrangements of the firms;
(2) To ascertain whether the extent of involvement in lease transactions is related to the earnings per share and net assets per share of breweries in Nigeria.

2. Theoretical framework

The financial contracting theory is considered appropriate for analyzing lease arrangements and the performance of breweries in Nigeria. This theory deals with how financiers and firms in need of fund enter into contract arrangements that create a lender-borrower relationship between the two parties; where the borrower contracts to pay specified amounts at future dates in exchange for an asset received from the lender. Financial contracting is affected by a number of factors such as the borrowing capacity of the firm in need of finance, the financial performance of the firm, firm size, leverage, the level of information available to the lender and borrower, the attitude of contracting parties to risk, and the level of competition among lenders and borrowers.

The theory is applicable to financial contracting relationships such as leasing arrangements (Mehran, Taggart

& Yermack, 1999). Using the incomplete contracting model developed by Aghion and Bolton, Vauhkonen (2004) explained that the allocation of control rights in financial contracting between the borrower and the lender depends on the financial performance of the borrower. If the performance of the borrowing firm is bad, the lender will have control of the firm; but if the performance of the borrower is good, the financier cannot exercise total control over the borrower. Accordingly, financial contracting theory is suitable for this study as this research is on leasing arrangement in an industry that uses high value of tangible assets, and the firms in the industry can easily be categorized into firms with good financial performance and firms with bad financial performance.

3. Conceptual review

The two key concepts in this study are lease arrangements and performance. The concepts are briefly discussed below.

3.1 Lease arrangements

International Financial Reporting Standards (IFRS) number 16 defines a lease as a "contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration" (International Accounting Standards Board (IASB), 2018 p. A743). The party that transfers the asset in exchange for consideration is the lessor, while the lessee is the party that obtains the right to use the asset for the period specified in the contract.

IFRS 16 mandates the lessor to classify each lease as *finance lease* or as operating lease. Where the obligations and benefits incidental to the ownership of the asset is transferred substantially to the lessee, the lease is classified as finance lease. But where the nature of the lease arrangement does not so transfer the risk and benefits associated with the use of the underlying asset, the lease is classified as *operating lease*. Given that IFRS 16 recognizes two major lease classifications, the current study examines the relation of both operating and finance leases to the financial performance of selected breweries in Nigeria.

3.2 Financial performance

Financial performance is the degree to which an entity's results achieve the monetary standards adopted by the entity. It measures how specified organizational tasks are fulfilled, using predetermined standards that are sometimes financial and quantitative. In accounting studies, performance may be measured based on return on assets, return on equity, earnings per share, net assets per share, and return on investment. Prior studies on lease and organizational performance frequently use return on assets as a measure of performance (Bello et al. 2016; Kajirwa & Ikapel, 2016; SindaniWafula, Namusonge & Nambuswa, 2016).

Earnings per share is a performance measure which conveys how the net income achieved by a reporting entity stands when scaled by the number of shares. Standard setters have considered this performance indicator as so important that its measurement and presentation are standardized by IFRS 33, *Earnings per share*. Accordingly, each reporting entity computes and presents its earnings per share (EPS) in its statement of comprehensive income. Also presented along with earnings per share is *net assets per share* – an important accounting measure derived from accounting numbers in the statement of financial position. Net asset is an important number in the financial reports of any entity as it shows the asset value of an entity after deducting all its liabilities. This study used these important performance indicators that are computed and presented in the financial statements of listed firms in Nigeria.

4. Leasing in the brewery industry in Nigeria

The brewing industry began its operation in Nigeria in 1946 when Nigerian Breweries Ltd was established in the country. Other companies in the industry were subsequently incorporated in response to increasing demand for beer, wines, spirit, packaged juice and carbonated soft drink. The industry is currently dominated by two companies, Nigerian Breweries and Guinness Breweries. The two companies account for about 90 per cent of the total market share of the industry (Olusi, 2014).

As with other industries, listed breweries in Nigeria engage in different types of lease arrangements to assist in funding their activities. For instance, Guinness Breweries Plc, one of the major firms in the industry with about 27 per cent of the market share (Olusi, 2014), is involved in leasing arrangements, both as a lessor and as a lessee. The financial statements of the company for 2017 disclosed that property, plant and equipment with historical cost of N15.26bn were acquired under finance lease arrangements, while motor vehicles, equipment, plant and machinery with historical cost of N4bn approximately were "leased out to third parties under operating lease arrangements" (p. 80). The financial statements also disclosed *finance lease liabilities* as part of its loans and borrowings, confirming that the company was involved in finance lease arrangements. The 2017 financial statements also recognized income from operating lease as part of *other income*, supporting the assertion that certain assets were leased out under operating lease arrangements. Put together, these financial statement disclosures indicate that Guinness Breweries Plc is actively involved in both finance and operating lease arrangements; and in some arrangements, the company is a lessor, while in other arrangements, the company is a lessee. The company is therefore involved in diversified lease arrangements.

Nigerian Breweries, the company that has the largest share in the brewery industry in Nigeria, is also involved in lease arrangements as shown by its 2017 financial statements which disclosed that the company acquired "some pieces of land under finance lease arrangements" (p. 67), while some offices, factory facilities and warehouses were acquired under operating lease arrangements that are non-cancellable (p. 89). The lease rentals paid by the firm amounted to N416m in 2016 and N492m in 2017 (p.59). These disclosures indicate that Nigerian Breweries is active in lease arrangements, but only as a lessee.

International Breweries, the third company in our sample paid off all its lease obligations in 2013 and did not enter into any lease obligations from 2013 to 2017. The financial statements of the company for 2013 disclosed this information (see p.40). The only lease transaction of Champion Breweries, the final company in our sample, is in respect of leasehold land which is usually fully paid at inception of the lease arrangement. Accordingly, there were no disclosures in respect of lease obligations or annual lease rental payments. Thus, International Breweries and Champion Breweries were only moderately involved in leasing arrangements during the period of the study.

5. Hypotheses

Given the objectives of this research and the discussions above, the following hypotheses have been formulated for the study.

H1a: The earnings per share of firms involved in leasing arrangements as lessee and lessor will not be significantly different from that of firms involved in leasing only as lessor or lessee

H1b: The net assets per share of firms involved in leasing arrangements as lessee and lessor will not be significantly different from that of firms involved in leasing only as lessor or lessee

H2a: The earnings per share of firms actively involved in lease arrangements will not be significantly different from that of firms moderately involved in leasing

H2b: The net assets per share of firms actively involved in lease arrangements will not be significantly different from that of firms moderately involved in lease arrangements.

6. Empirical review

Bello et al (2016) examined the effect of finance lease and operating lease on the return of assets of six oil and gas firms in Nigerian. Using time series data from 2005 to 2014, and regression analysis, the study found that finance lease had significant effect on return on assets, while operating lease had insignificant effect on the return of assets on the selected firms. Similarly, SindaniWafula et al. (2016), who studied the effect of leasing on a county government in Kenya, found that finance lease arrangements had a positive effect on entity's performance (measured by return on assets). The study used primary data obtained from questionnaire administered on ten departments in the county, and analysed the primary data collected. It was not clear why actual data on finance lease and return on assets were not used by the study.

In another Kenyan study, Kajirwa and Ikapel (2016) examined whether operating lease arrangement had a significant effect on the reported profits of four sugar producing companies owned by the government. As with Bello et al. (2016), the study found that operating leases did not significantly affect the return on asset of firms in the sugar manufacturing industry in Kenya. However, the study focused only on operating leases.

Biourjade et al. (2017) investigated how leasing choices impact the profitability of airlines operating across different countries. Using data on 73 airlines that operated across the world for sixteen years, and robust estimates to control for possible endogeneity in evaluating how leasing impacts profitability, the study found that the leasing effect on profit margin was concave for airlines, indicating that marginal returns arising from leasing in the sector were declining. The study compartmentalized its sample into two groups – low cost carriers and full cost carriers, and found that the former group's profitability was more impacted by lease arrangements.

Akinbola and Otokilti (2012) studied whether the profitability of small and medium scale enterprises (SMEs) was affected by leasing. The study obtained data through questionnaire from thirty SMEs in Lagos, and analyzed the data using simple percentages and frequencies. Results of the study showed that leasing affects the profitability of SMEs in Lagos. The study, however, did not state how profitability was defined. Similarly, Salaam (2013) studied how leasing affected the financial performance of SMEs in Bangladesh, and found that lease arrangements had positive and significant effect on performance.

The empirical review above suggests that leasing, especially finance leases, affect the profitability of listed companies and other entities in different countries. None of these studies addressed the case of breweries in Nigeria; and, more importantly, the studies did not address whether differential intensity of involvement in leasing is associated with profitability. There is therefore gap in literature which this study intends to fill.

7. Methodology

7.1 Design

This paper uses ex-post facto design, which is applicable when the variables used in the research are not under the researcher's direct control, but are chosen after the occurrence of the event of interest. In other words, the observations used are *ex-post* in nature. Another important characteristic of the design is that the two groups in the study are matched after the occurrence of the event (Ryan, Scapens & Theobald, 2002). In the present study, the observations have occurred before they were chosen by the researcher, and the design of the current study allows for two groups that are matched based on observations that occurred before this study.

The current study categorized the selected companies into two groups depending on their involvement in leasing arrangements. Companies that were actively involved in finance and/or operating lease arrangements in the period covered by the study were classified as *lease active*, while those that discontinued all their lease arrangements within the period covered by the study were classified as *lease moderate*. Companies whose involvement in lease transaction was only in the form of leasehold land throughout the period of the study were also classified as *lease moderate*. Companies within the *active* group were further re-classified into *diversified* (if the company was involved in lease arrangements both as lessor and lessee), and *undiversified* (if the company was involved in lease arrangements either as lessee or lessor).

7.2 Population and sample

There are seven brewing companies listed on the Nigerian Stock Exchange, namely: Champion Breweries Plc, Golden Guinea Breweries Plc, Guinness Breweries Plc, International Breweries Plc, Jos International Breweries, Nigeria Breweries Plc and Premier Breweries Plc (Olusi, 2014). If the Taro Yamene formula for sample selection is applied to a population of seven observations, the sample size would 6.9, suggesting that all the firms in the population should be part of the sample. However, Golden Guinea Breweries was closed down in 2005 and re-opened in 2016 (Hart, 2016), therefore, financial information on the company for the period covered by this study (2008 to 2017) was not available.

Financial information on companies with relatively low market capitalization such as Premier Breweries and Jos International Breweries are not readily available (Olusi, 2014). Therefore, the sample for this study is made up of four companies: Nigeria Breweries Plc, Guinness Nigeria Plc, International Breweries Plc and Champion Breweries Plc. The first three companies jointly account for ninety-nine percent of the market capitalization of the brewery industry in Nigeria. Therefore, the selected firms are representative of the industry.

Table 1 Earnings Per Share of selected companies

Year	Guinness Breweries	Nigerian Breweries	International Breweries	Champions Breweries
2008	804	340	3	-95
2009	918	369	-14	-113
2010	931	401	133	-137
2011	1216	508	133	-133
2012	995	503	-103	-149
2013	793	570	71	-127
2014	636	562	64	-24
2015	518	482	59	1.0
2016	-134	358	81	6.8
2017	128	413	31	6.6
Average	680.5	450.6	45.8	-76.36

Source: extracts from accounts of selected companies

Table 2 Net Assets Per Share of selected companies

Year	Guinness Breweries	Nigerian Breweries	International Breweries	Champions Breweries
2008	24.99	4.26	0.00	-0.07
2009	21.37	6.16	-0.13	-1.19
2010	23.19	6.63	1.19	-3.86
2011	27.31	10.35	1.19	-2.32
2012	27.36	12.36	0.75	-3.81
2013	30.57	14.86	2.88	-5.08
2014	29.92	21.53	3.42	-1.88
2015	32.10	21.72	3.69	-0.91
2016	27.67	20.91	4.25	0.98
2017	28.52	22.37	4.21	1.03
Average	27.30	14.12	2.15	-1.71

Source: Researcher's computation

7.3 Source of data and method of data analysis

The data used for this study were obtained from the annual reports and accounts of the selected companies. All the selected companies computed and presented figures of earnings per share and net assets per share in their financial statements. The study used t-statistic to compare the performance of the companies based on reported earnings per share and net assets per share.

8. Data and results

Table 1 presents the data on earnings per share of the selected companies from 2008 to 2017. The earnings per share of the companies range from a loss per share of 76k to earnings per share (EPS) of 680k. The two major companies, Nigerian Breweries and Guinness Breweries recorded the higher amounts of earnings per share, although the average EPS of Guinness Breweries (680k) appears to be substantially higher than that of Nigerian Breweries (450K). The average EPS of Nigerian Breweries in the ten-year period of the study is about 66 per cent of the average EPS of Guinness Breweries for the same period.

Table 2 reports the net assets per share (NAPS) of selected companies for the ten years period of the study. Consistent with the EPS figures, the average NAPS of Guinness Breweries and that of Nigerian Breweries are substantially higher than the figures for International Breweries and Champion Breweries. In most of the years, Champion Breweries actually reported negative net assets per share, suggesting that the company may have had a long history of loss making. This suggestion is supported by the serial loss per share recorded by the company from 2008 to 2014. Table 2 also shows that the average net assets per share of Nigerian Breweries is lower than that of Guinness Breweries; in fact, the average net assets per share of Nigerian Breweries is just about 67 per cent that of Guinness Breweries.

Table 3 Combined earnings per share of selected firms

	lease active firms				**lease moderate firms**			
Year	GB	NB	Combined GBNB	Average GBNB	IB	CB	Combined IBCB	Average IBCB
2008	804	340	1144	572	3	-95	-92	-46
2009	918	369	1287	643.5	-14	-113	-127	-63.5
2010	931	401	1332	666	133	-137	-4	-2
2011	1216	508	1724	862	133	-133	0	0
2012	995	503	1498	749	-103	-149	-252	-126
2013	793	570	1363	681.5	71	-127	-56	-28
2014	636	562	1198	599	64	-24	40	20
2015	518	482	1000	500	59	1.0	60	30
2016	-134	358	224	112	81	6.8	87.8	43.9
2017	128	413	541	270.5	31	6.6	37.6	18.8
Average	680.5	450.6		565.55	45.8	-76.4		-15.28

Source: Researcher's computation

Table 3 presents the combined EPS of Guinness Breweries and Nigerian Breweries (GBNB) and the combined EPS of International Breweries and Champion Breweries (IBCB). The first two companies (Guinness Breweries and Nigerian Breweries) are classified as *lease active* based on information discussed in Section 4 above. The other two companies (International Breweries and Champion Breweries) are classified as *lease moderate* companies. Table 3 further shows that the average earnings per share of the *lease active* firms for the period of the study (565.55k) is far greater than the negative amount of 15.28k computed as the average of the combined earnings per share of the *lease moderate* firms. The negative average amount of the combined EPS of *lease moderate* firms is the result of negative EPS figures in the two firms; especially, Champion Breweries with serial losses in the first six years of period covered by the study.

Table 4 presents the combined net assets per share of *lease active* firms and *lease moderate* firms. The average of combined NAPS for *lease active* firms is N20.71 while the figure for the other group is 21k. The low figure of NAPS for lease *moderate* firms is attributable to the poor performance of the two companies, especially, Champion Breweries Plc. The NAPS figures of International Breweries and Champion Breweries suggest that the financial performance of the companies was poor, and this is consistent with the financial outcome depicted by the earnings per share numbers of the two companies.

Table 4 Combined net assets per share (NAPS) of selected companies

	NAPS lease active firms				**NAPS lease moderate firms**			
	Combined			Average	Combined			Average
Year	GB	NB	GBNB	GBNB	IB	CB	IBCB	IBCB
2008	24.99	4.26	29.25	14.625	0.00	-0.07	-0.07	-0.035
2009	21.37	6.16	27.53	13.765	-0.1	-1.19	-1.32	-0.66
2010	23.19	6.63	29.82	14.91	1.19	-3.86	-2.67	-1.335
2011	27.31	10.35	37.66	18.83	1.19	-2.32	-1.13	-0.565
2012	27.36	12.36	39.72	19.86	0.75	-3.81	-3.06	-1.53
2013	30.57	14.86	45.43	22.715	2.88	-5.08	-2.2	-1.1
2014	29.92	21.53	51.45	25.725	3.42	-1.88	1.54	0.77
2015	32.10	21.72	53.82	26.91	3.69	-0.91	2.78	1.39
2016	27.67	20.91	48.58	24.29	4.25	0.98	5.23	2.615
2017	28.52	22.37	50.89	25.445	4.21	1.03	5.24	2.62
Average	27.30	14.12		20.71	2.15	-1.71	0.43	0.217

Source: Researcher's computation

Table 5 Comparison of results of active leasing firms

	Earnings per share			Net assets per share		
	GB	NB	Results	GB	NB	Results
Mean	680.5	450.6		27.3	14.115	
Variance	169976.5	7225.822		11.06882	51.26376	
Observations	10	10		10	10	
Pearson Correlation			0.321238			0.800008
Hypo. Mean Diff			0			0
Df			9			9
t Stat			1.848474			8.472321
P(T<=t) one-tail			0.048794			6.98E-06
t Critical one-tail			1.833113			1.833113
P(T<=t) two-tail			0.097588			1.4E-05
t Critical two-tail			2.262157			2.262157

Source: Results t-test of EPS and NAPS data from annual report of selected companies

Table 5 presents the results of comparison of *lease diversified* firm (i.e. firm involved in lease arrangements both as lessor and as lessee) with *lease-undiversified* firm (i.e. firm involved in leasing either as a lessee or as a lessor). From the discussion in Section 4 it was established that Guinness Breweries has been a lessor and a lessee all through the period of ten years covered by this study, while Nigerian Breweries has been a lessee all through the period. The Table shows that the correlation between the reported earnings per share of the companies over the ten year's period is only 32 per cent, suggesting that increases or decreases in earnings per share did not substantially move in the same trend for the two companies. The mean of earnings per share of Guinness Breweries (680k) is higher than that of Nigerian Breweries (450k), and the difference between the means is significantly different at the 1 per cent level as shown in Section 1 of the Table.

Given the p values in Table 5, the mean of earnings per share of Guinness Breweries is significantly greater than that of Nigerian Breweries. Therefore, hypothesis 1a is not supported as the earnings per share of a *lease diversified* firm (i,e. a firm involved in leasing activities as lessee and lessor) is significantly greater than the earnings per share of a *lease undiversified* firm (i.e. a firm involved in lease arrangements only as a lessee or lessor).

Table 5 also compares the mean of net assets per share of a *lease diversified* firm (i.e. firm involved in leasing activities as lessee and lessor) to the net assets per share of a *lease undiversified* firm (i.e. a firm involved in leasing arrangements only as a lessee or lessor). The results show that the mean of the net assets per share of Guinness Breweries (N27.8) is significantly greater than that of Nigerian Breweries (N14.1) at the one per cent level (with p-value = 0.0000014). Therefore, hypothesis 1b is not supported since the net assets per share of a firm involved in leasing arrangements as lessee and lessor is significantly greater than that of a firm involved in lease arrangements only as a lessee

Table 6 Comparison of results of lease-active firms and lease-moderate firms

	Earnings per share			Net assets per share		
	GBNB	IBCB	Results	GBNB	IBCB	Results
Mean	565.55	-15.28		20.7075	0.217	
Variance	49929.64	2673.124		25.11155	2.427323	
Observations	10	10		10	10	
Pearson Correlation			-0.56325			0.668168
Hypo. Mean Diff			0			0
Df			9			9
t Stat			7.170359			15.66686
P(T<=t) one-tail			2.62E-05			3.86E-08
t Critical one-tail			1.833113			1.833113
P(T<=t) two-tail			5.25E-05			7.73E-08
t Critical two-tail			2.262157			2.262157

Source: Results t-test of EPS and NAPS data from annual reports of selected companies

Table 6 presents the results of t-test comparing the earnings per share of *lease active* firms with the earnings per share of *lease moderate* firms. The mean of the earnings per share of the active firms is 565k, while that of the other category is -15k. Results presented in the Table 6 show a negative correlation of the EPS figures of the two categories, suggesting that while the more *lease active* firms recorded earnings, the combined outcome of the *lease moderate* firms are essentially negative. This fact is supported by the combined EPS of the second group reported in Table 4. Result of t test comparing the mean of the combined EPS of the two categories as reported in Table 6 shows that the mean of the *lease active* category is significantly greater than that of the *lease moderate* category. Accordingly, hypothesis 2a is not supported, suggesting that firms with higher EPS figures are likely to be more active in leasing arrangements than firms with relatively lower EPS values. Based on this result, the EPS of firms actively engaged in lease arrangements is significantly greater than the EPS of firms moderately involved in lease arrangements.

Table 6 also shows the result of t-test comparing the net assets per share of firms actively engaged in lease arrangements with the net assets per share of firms moderately involved in leasing transactions. The results reported in Table 6 shows that the mean of the net assets per share of the *lease-active* group is N21, while that of the other category is 22k. The result of t-test comparing the two means shows that the *lease active* category has a significantly greater amount of net asset per share than the group that is less active in lease arrangements, suggesting that hypothesis 2b is not supported since the mean of the net assets of *lease active* firms is significantly greater than the net assets per share of *lease moderate* firms.

9. Discussion

The results in Table 5 shows that the firm that has more diversified lease arrangements reported significantly higher earnings per share and net assets per share than the firm that has relatively less diversified lease arrangements. As stated in section 4, Guinness Breweries is actively involved in leasing arrangements as it leased some assets and leased out other assets, making the firm both a lessor and a lessee. The other company, Nigerian Breweries is also actively involved in lease arrangements but only as a lessee, and the form of its lease arrangement (other than leasehold land) is operating lease arrangements.

Prior studies have shown that operating lease arrangements do not significantly affect the profitability of firms, while finance lease is reported as having significant positive effect on profitability (Bello et al. 2016; Kajirwa, 2016). This may possibly explain why a firm involved in more diversified lease arrangements may be more profitable than the one involved only in operating lease arrangements. This possible profit-related superiority of finance lease over operating lease arrangements may have contributed to the popularity of finance lease arrangements over operating lease arrangements in Nigeria (Orimisan, 2018).

The results reported in Table 6 compares the earnings per share and net assets per share of firms active in lease arrangements with the earnings per share and net assets per share of *lease moderate* firms (i.e. firms with discontinued or relatively inactive leasing arrangements). The results showed that the firms actively involved in lease arrangements reported significantly better earning per share and net assets per share. This result is consistent with prior researches which report that leasing impacts the profitability of firms (Akinbola & Otokitti, 2012; Biourjade et al. 2017). It is also possible that this result may derive from the fact that the *lease active* firms in this study are also the firms with the largest market share in the industry, and would therefore receive the benefit of scale even in their leasing arrangements.

Another possible explanation of the result is based on financial contracting theory, which suggests that firms with better financial performance achieve better deals in lease arrangements as financiers cannot exercise as much control over the borrower as they would do if the borrower's financial performance is poor. Firms with poor financial performance may shy away from lease arrangements as the financiers may consider their record of poor performance and include premiums to take care of the risk of default. This may constrain these borrowers to discontinue lease arrangements or avoid active engagement in such arrangements.

10. Conclusion

This study measured profitability using earnings per share and net assets per share, and compared the profitability of firms with more diversified leasing arrangements with that of firms with less diversified leasing arrangement, as well as the profitability of firms that are active in leasing arrangements with the profitability of firms with discontinued or inactive leasing arrangements. The results lead to the conclusion that profitability is associated with the level of involvement in lease arrangements as firms with more diversified, or more active lease arrangements reported better profitability than firms with less diversified, or less active less arrangements.

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