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ACHIEVING ORGANIZATIONAL PERFORMANCE THROUGH FINANCE LEASING AMONG SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA

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Abstract

The study was conducted to examine achieving organizational performance through finance leasing among small and medium enterprises (SMEs). The study established that leasing suits the level of development of the Nigerian financial market and should be utilized as debt financing in order to boost the capital of firms for enhanced financial operations. It was concluded that Lease financing permits a company to avoid many of the uncertainties associated with equipment and provides a flexible alternative to cash in the acquisition of business-critical assets and equipment. It was recommended that small and medium enterprises (SMEs) identify the specific assets that are crucial for their business operations. Conduct a thorough assessment of your financial needs, taking into account the type of assets, their lifespan, and the potential impact on revenue generation. Management should also ensure a clear understanding of what finance leasing entails. Finance leasing involves obtaining assets for a specific period while paying regular lease payments. At the end of the lease term, SMEs may have the option to purchase the asset at a predetermined price.

KEYWORDS: ORGANIZATIONAL PERFORMANCE; FINANCE; LEASING ; SMEs

Introduction

Small and medium-sized enterprises (SMEs) form the back bone of the private sector, making up approximately 90 per cent of Nigeria's private sector and contribute two-thirds of national income (Badagawa, 2019). SMEs generate employment, add value, bring in foreign exchange and investment, improve labour skills, and have linkages with large organizations.

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Therefore sustainable development and employment cannot be achieved without SMEs Endris, and Kassegn, (2022).

Access to finance tops the list of constraints faced by SMEs everywhere. Because of the high transaction costs and inability of SMEs to provide collateral required by banks, SMEs find themselves starved for funds at all stages of their development ranging from start-up to expansion and growth (Beyene,2019). In Nigeria, it is leasing that has bridged the current financing gap experienced by SMEs by providing commercial and industrial equipment as it focuses on the lessee's ability to generate cash flow from the business operations to service the lease repayments rather than on the balance sheet or past credit history (Kisaame, 2017). The terms of a given lease contract constitute a lease structure and these include: length of the lease term, operating costs, lease rentals, reviews and incentives. Lease structure varies from one lease contract to another.

One of the most important concepts in the financial market is the lease as an agreement in which one party gains a long-term rental agreement and another party receives a form of secured long-term debt. This means that the lessee gains a long-term contract for use of an asset and the lessor is assured of regular payments for a specified number of years. A leasing company is a financial unit which serves such services. Since leasing has a vital role in economic development and growth and also contributes a major share in the gross domestic product (GDP) by supporting the channelizing of funds (Alam, 2011), assessing the performance of the leasing companies is a most important issue.

Generally, performance evaluation is the process of obtaining, analyzing, and recording information about the specific aspects of a company's or an organization's performance. Although the performance evaluation has various aspects (such as financial, customer, quality and processes), providing an opportunity for organizational diagnosis, improvement and development is the aim of the performance evaluation in all different viewpoints. Financial performance is one of the main aspects of each company's performance, which is commonly evaluated using financial statement analysis and financial ratios analysis.

The prevailing factors in Nigerian Economy has made equipment leasing very attractive as an alternative source of capital asset acquisitions, and highlighted in the process; the relationship between lease turnover and profitability of leasing companies. Osaze (2013) defined leasing as a contract between the owner of an asset, the lessor and the prospective user of that asset, the lessee, giving the lessee possession and use of the asset on payment of rentals over a period of time. The lessor retains ownership of the asset so that it never becomes the property of the lessee or any third party during the tenure of the lease. Overall, small- and medium-sized enterprises constitute a significant sector in any economy.

The quest for good financial management strategy is not contestable because every business needs a good and dependable cash flow to grow. This has made it necessary for corporate bodies to seek for ways of reducing cost of operations especially when it comes to

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asset acquisition. In today's fast paced business environment, acquisition of modern equipment is imperative for long term growth and development but funds to acquire these equipment are not accessible. Gabara and Todaran (2011) observed that there is need as a matter of urgency for industrialists to develop other innovative financial products that would circumvent access pitfalls associated with traditional forms of financing. One form of such financing that has the ability to emerge as an innovative form of financing is lease financing.

There is no doubt that most organizations need a lot of equipment and machineries to embark on smooth operations inspite of the fact that these equipment and machineries are costly. However, specialists have discovered that these equipment and machineries can be leased rather than purchased outright in order to have sufficient and adequate capital for operations.

Access to finance is one of the most widely discussed issues in recent times among financial experts world over. This is because it has become the major hindrance to industrialization. According to Adam and Hardwick (2008) ineffective domestic investment, poor economic growth and slow pace in poverty reduction experienced in most nations of the world is as a result of lack of access to affordable and reliable finance or credit to power their local industries. Lack of funds is a major challenge faced by captains of industries in developing nations of the world.

In Nigeria, leasing has become one of the main forms of finance that has bridged the current financing gap experienced by SMEs. In addition, a lot of effort has been made to improve the leasing competence of SME managers through provision of a wide range of business support services. In spite of all that, performance of SMEs in Nigeria continues to deteriorate yet without SME development, sustained economic growth is out of question. What remains unclear is the influence of leasing competence of managers and lease structure on the performance of SMEs.

Meaning and Concept of Leasing

Leasing has been defined by different authors in different ways but all the same, the meaning is anchored toward the same thing. Kurfi (2013) conceptualized leasing as an alternative mode of financing to the traditional debt and equity capital for the acquisition of capital assets by firms. Kraemer and Lang (2019) sees leasing as a contract between two parties where one party (the lessor) provides an asset for usage to another party (the lessee) for a specified period of time, in return for a specified payments. Nigerian Accounting Standard Board (NASB) in information circular (2010) viewed leasing as a contractual agreement between an owner (the lessor) and another party (the lessee) which conveys to the lessee the right to use the leased assets for consideration usually periodic payments called rent. Therefore leasing can be seen as a contractual agreement granting the use of an asset to the lessee by the lessor within a specified period of time in exchange of periodic payment of an agreed rental fee by the lessee to the lessor.

Leases are sometime called capital leases. This term alludes to the fact that, for purposes of financial accounting, the lessees are required to reflect the leased equipment as a capital item

in their balance sheet (Baker and Hayes, 2016). According to the IAS, a lease is a capital lease if it transfers substantially to the lessee all the risks and rewards incidental to the ownership of the equipment, whether or not ownership transfers to the lessee. Such a transfer of risks and rewards is presumed to occur if at the inception of the lease, the present value of minimum lease payments, including any initial payment, amount to substantially all (over 90%) of the value of the leased equipment.

Generally, a finance lease works very much like a loan in economic terms, although it is not loan in legal terms. Under a capital lease, the rents paid by the lessee during a fixed or minimum lease term sometimes called the primary period include the cost of the equipment together with interest. If the lease continues after the primary period, the rent reduces because the lessor has been paid back (Burgress, 2019).

In Nigeria, a lease contract in which the risks and rewards associated with ownership of leased equipment are substantially transferred from the lessor to the lessee, but where the lessor retains ownership of the equipment, is classified, for income tax purposes, as a finance lease. This means that the lessor is not responsible for the merchantability and suitability of the leased equipment, and the lessee has to continue paying the lease installments even if the equipment does not perform as expected (Pritchard and Hindelang, 2013). The role of the lessor in a finance lease is limited to financing the lease. This class of leases was created to enable financial institutions, which traditionally do not have equipment knowledge, to be able to finance equipment leases without taking on risks associated with the technical suitability of the leased equipment (Berger and Udell, 2015).

Effect of Finance Leasing On Organizational Performance

Equipment financing provides an excellent alternative source of capital and a flexible alternative to cash in the acquisition of business-critical assets and equipment. Equipment financing allows companies to procure equipment at a fixed rate, for a fixed period of time, without having to purchase the equipment from cash or working capital (Myers and Majluf, 2019). Leasing permits a company to avoid many of the uncertainties associated with equipment ownership and instead allows it to focus on using the equipment or assets to run and grow its business. Companies choose to lease equipment rather than purchase equipment for many reasons which include cash flow and conservation of capital (Erickson, 2004).

Pritchard and Hindelang (2013) found that firms facing high cost of external funds can economize on the cost of funding by leasing. Their results suggest that a low rated firm should use more lease financing compared to a highly rated firm after controlling the firm size and other factors. They also found that tax rate and leasing propensity is negatively correlated. Furthermore, based on their results, they suggest that a comprehensive analysis of capital structure should not disregard the role of leasing. Similarly, Kurfi (2009) found that leasing

reduces bankruptcy costs than borrowing, and it becomes attractive financing option as bankruptcy potential of a firm.

The preservation of cash flow compared to conventional financing is the most attractive benefit of leasing. A “true” lease can offer low cost financing because the lessor takes advantage of tax benefits that are passed to the lessee in the form of reduced payments. If the lessee cannot currently use tax depreciation to offset taxable income due to current operating losses, loss carry-forwards or alternative minimum tax, depreciation benefits may be effectively lost forever if the lessee purchases rather than leases (Craig and Schallheim, 2016). Leasing does not require the cash outlay for a large equipment purchase and can be used to overcome budget limitations. Existing cash position and lines of credit remain free and liquid for other working capital needs that have higher ROE and or ROA metrics.

In reality, the decision to use leasing has various consequences on the cash flows and therefore influences the cost of capital after taxation. It is clear that with the decision to use leasing the sums involved in direct payments for the asset and their timing are of considerable importance (McCue, 2017). It is also clear that such a decision influences the moments when the tax debt comes to the fore and, to a certain degree, can also influence the value of these debts. The cash flows of the company after taxation are different and these changes have to be taken into consideration when estimating the effect on the cost of capital of the new asset. When the rates of taxation are different for the lessor and the leaseholder, the leasing operation makes it possible to transfer the effect of the tax shield to the company that can best use it (Kilpatrick and Nancy, 2017). In other situations, the leasing tax laws make it possible to reach advantageous conditions for both the leaseholder and the lessor, the advantage being divided in accordance with the contractual force of the two parties.

In the presence of strong and indisputable tax advantages of leasing, the rules of behavior governing the covering of financial requirements are clearly very simple. One simply uses the financial solution which produces the biggest tax advantages. Such solutions are known to the operators and highlighted by the leasing companies and by the banks in order to place their own products (Pritchard and Hindelang, 2013).

Effect of Installment Payment on Organizational Performance

An installment contract is a single contract that is completed by a series of performances–such as payments, performances of a service, or delivery of goods–rather than being performed all at one time. Installment contracts can provide that installments are to be performed by either one or both parties. For example, a contract could provide that a buyer would pay a lump sum for goods that would be delivered over a period of time, that a seller would deliver products but receive payment over a period of time, or that a seller would deliver products over a period of time and receive payment after each delivery.

Installment contracts can be used in the sale of goods, and are provided for in the Uniform Commercial Code (UCC). In this context, even if a contract contained a clause that

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"each delivery is a separate contract," a single agreement for successive deliveries would still be considered an installment contract. The statute also provides that buyers can reject non-conforming installments in some circumstances. Further, a non-conforming installment that impacts the value of the whole contract can constitute a breach of the whole contract.

Installment contracts can also be used in the sale or lease of real estate as an alternative to a mortgage. The buyer would take immediate possession and have the right to use the property but would not gain legal title until making the final payment to the seller. An installment payment is a type of loan where you borrow a set amount of money all at one time. You then repay the loan over a fixed number of payments, called installments. Many installment loans also have fixed payment amounts, meaning the amount does not change over the life of the loan — whereas if you have a variable interest rate that amount can change (Kalleberg, 2010).

Effect of Contract Hiring on The Organizational Performance

Short-term employment contracts are employment situations whereby the working environment is limited to a given period. This period is based on the need of the employing organization. Employees of short-term contracts are usually highly skilled in the fields they are called to work in. Short-term employees may work either as full-term or as part-time workers. Through this, some employees get to be employed permanently depending on the need of the employer. However, not all short-term workers end up being employed in those organizations.

The rise of short-term jobs in the society makes most people prefer short-term employment to permanent because it enables them to explore a lot and gain more skills in different organizations and brings into being the global market for work (Kalleberg, 2010). Contract hiring or short term employment among a range of classifications available, short term employment is variously referred to under the titles "contingent" "irregular", "non-standard", or "atypical" (Bourhis and Wils, 2011) employment. By and large, the terms refer to those who are employed in jobs that do not fit the traditional description of a full-time, permanent job. Contract hiring is generally understood to encompass short term employees recruited by short term consultants or agencies which are external to the employer, or those hired directly by the company to be short term employees, contract employees, subcontractors, consultants, leased employees, part-time employees and self-employed.

As a distinct labour subset, however, "short term employment" is commonly defined as: A job where the individual does not have an explicit or implicit contract for long term employment, the short term nature of the job being recognized by both parties (Nardone, 2017). The different descriptions and definitions of short term employment, and the linked uncertainty, offers a challenge to scholars of research as any educated guess of the size of the short term workforce depends on the definition that is used. Moreover, official statistical collections on labour market trends have often not kept pace with apparent changes in work (Callister, 2017). Short term employment has increasingly become part of the labor market in the Nigeria, with an

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average incidence of about 13 per cent in 2015 (OECD, 2018). In spite of measurement problems, commentators are in accord that the short term workforce has become a significant employment option. Short term employment is a means of job continuity in an era of restructuring, redundancy and unemployment. Such job continuity is replacing job security for many professionals and short term work is a way to stay continuously employed (Brosnan, 2016). Short term employment may open up opportunities for previously unemployed people to find employment (Callister, 2017), and it provides foot-in-the-door opportunities and experience for people entering the workforce.

Lease Industry in Nigeria

According to Elan (2015) which governs lease contracts in Nigeria, the Equipment Leasing Association of Nigeria (ELAN) and Finance Houses Association of Nigeria (FHAN) along with bank and non-bank lease companies are the key regulators and participants in the Nigerian lease industry. Lease finance as a source of national development and business financing has a long history in Nigeria. Oko and Anyanwu (2019) highlighted the role of leases in the post-civil war reconstruction activities of the government in the 1970s which demanded high-cost infrastructure. Therefore, the growth of the lease industry in Nigeria may not be attributable to the role of providers of lease finance alone but also the increase in economic activities as a result of the fiscal, monetary and economic policies.

The Structural Adjustment Programme (SAP) of the 1980s which aggressively promoted commercialization and privatization of public institutions is notably one of such policies (Ndakotsu, 2000). Besides increase in costs of capital assets as a result of instability in foreign exchange rates, constraints on guaranteed off-shore loan facilitates in a bid to manage external debt burden over the years have underscored the importance and relevance of leases in Nigeria (Oko and Anyanwu, 2019). Furthermore, Oko and Essien (2020) noted that the lease industry in Nigeria is heterogeneous because transactions between principal parties- lessor and lessee depend on the nature of the lessee industry, purchasing capacity and propensity, firm size, mode of operation and management policies of the parties involved.

Lease finance is adopted for a diverse range of assets. Based on this, the market in Nigeria can be grouped into small, medium and large ticket lease transactions depending on the transaction size or value of assets leased (Alli, 2017). In 2018, vehicles were found to be the most leased assets accounting for 38%; plant and machinery, 14%; computers and office equipment also at 14%; aircraft/vessels accounted for 2% and others such as household equipment collectively constituted 10% of the total lease volume. The type of vehicles leased included trucks for haulage as well as buses for commercial inter-state transportation. Finance leases constituted 60% of total lease transactions as opposed to 40% for operating leases (ELAN, 2018). In analyzing the lease industry in Nigeria, discussion is made under the following sub-headings; market participants and dynamics, legislation and regulation, industry performance.

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Challenges of Lease Finance in Nigeria

The Nigerian lease industry is not without its challenges principal of which is funding for huge capital investments in order to meet current demand for lease products. The banks are adjudged to fall short of adequacy in financing capacity due to poor liquidity positions coupled with high lending rates. Correspondingly, the falling crude oil prices, rising asset prices and consequent devaluation of the naira is forecasted to increase the costs of leasing businesses necessitating innovative strategies for the survival and thrive of market participants (ELAN, 2015). In addition, the volatile exchange rate discourages the sourcing of funds by lessors from foreign markets leading to potentially high financing cost for both lessors and lessees. The consequence of this funding dilemma that lessors face has been the restriction of lease service provision to general supporting equipment and MSMEs.

Participation in the big-ticket leases which involve provision of specialized assets therefore, remains low. Furthermore, leasing as a key source of financing growth in firms does not enjoy the level of publicity that finance products such as term loan, time loan and overdraft enjoy. As a result, many businesses do not consider it as a valuable option for financing the acquisition of assets for their businesses. This, in spite of the fact that collateralization has always been a general problem in the Nigerian financial sector. Most businesses that currently enjoy lease facilities being MSMEs typically lack collateral assets. In big-ticket lease transactions, lessors struggle due to funding inadequacies to perfect the lease asset in time for consummation leading to either failed transaction or unnecessary delay in completion.

Requirements for Sustainability of Lease Finance in Nigeria

The 2019 Outlook document posits that the inauguration of the Equipment Leasing Registration Authority will enable effective enforcement of the provisions of the Equipment Leasing Act (2015), which in turn, will provide a sound legal frame work for operations, attractive to local and foreign investors in the Leasing industry. There is also the need to raise level of awareness across all stakeholders in the economy (individuals, households, firms and government) of leasing as a finance alternative. This corroborates the recommendation of Musa-Mubi (2020) based on findings of lease use to be negatively and significantly affected by other forms of debt constituting leverage in listed non-financial firms in Nigeria.

Orientation of target clients is geared towards increasing patronage and the domino effect of instituting enhanced capacity to meet demand in the provision of lease finance by lessors. Leasing businesses as well as the Equipment Leasing Association of Nigeria (ELAN) need to amplify efforts in disseminating information on the benefits and processes involved in leasing. This can be achieved through marketing strategies, conduct of conferences, seminars, publications, direct and indirect engagements with prospective customers. Sustained capacity building and market research is necessary on the part of lessors to ensure their viability through

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being acquainted with consumer needs, market trends, risk, legal and regulatory dynamics amongst others.

A Communique of the Business Forum organized by ELAN (2017) points out the potential of insurance and pension funds as important sources of finance for the lease industry given its funding shortages. It stressed the need for collaboration between the insurance and lease industries whereby insurance companies increase their investments in leasing businesses as well as provide residual risk insurance cover for leased assets. The Communique further recommended the institution of effective corporate governance in leasing businesses in order to enhance reputation (similarly, credit ratings) and facilitate access to funding. It would be of immense benefit to lessors if the Government enables access to not just pension funds but the various interventions finance allocated to different sectors of the economy.

Prospects of Lease Finance in Nigeria

There is rising popularity of operating lease finance with lessors and lessees attributable to the inherent mitigation against default risk as well as the demand by corporate firms for lease services. There is also potential for a growing customer base beyond MSMEs, with the influx of patronage by listed corporate firms who seek to avail themselves of finance opportunities besides those obtainable on the capital market. This may also be in light of positive effects that lease finance has on these firms as found by Bello, (2016) in examining the impact of leasing on profitability of listed oil and gas firms in Nigeria. The agriculture, manufacturing and construction sectors of the economy are expected to sustain demand for specialized and general capital assets which by implication would translate to continued demand for lease finance. Emerging markets have also been identified in the healthcare and education sectors with ELAN exploring means of partnership with sector players in the provision of healthcare and instructional facilities (ELAN, 2017)

The prospects for lease finance are further accentuated in the 2019 Lease Outlook document published by ELAN which counts as enabling factors, huge financing gaps cutting across all sectors of the economy, constrained access to finance especially by MSMEs which makes leases to be attractive as a procurable source of finance and the suitability of leases as a means to the realization of Government initiatives towards economic recovery, growth and development. The lease industry is expected to develop secondary markets with innovation in its product offerings. Nwanyanwu (2015) recommends sophistication by lease businesses in service delivery through knowledge and deployment of Information and Communication Technology (ICT).

The introduction of the International Financial Reporting Standard (IFRS) which guides the accounting for lease transactions is expected to have an effect on the nature of lease businesses. The accounting for operating leases in the prior International Accounting Standard (IAS) which enabled the report of such finance off-balance sheet, was a prime reason for the

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attractiveness and subscription to operating lease finance as key performance and leverage ratios of lessee firms were favorably affected in the financial statements. With the replacement of IAS 17 and the current requirement for all leases irrespective of type to be recognized on the balance sheet, there is a foreseeable shift in the transaction structure of products provided by leasing businesses to that of service contracts. This would enable lessee firms to expense costs instead of capitalizing liabilities in their financial statements. The 2019 Outlook thus, forecasts sweeping changes to the lease business model, lease products offered and lease decisions taken by current and target lessees. Ingenuity on the part of lessors would be required to consolidate the place of leases as a finance alternative for capital formation in Nigeria.

Theoretical Framework

Agency Costs Theory

The main theoretical explanation for the relationship between the ownership structure and profitability is based on the agency theory, first established by Jensen and Meckling in 1976. 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. This probably explains the reason why corporations lease office facilities much more frequently than manufacturing or Research & Development facilities. Robicheaux& Fu (2008) examined whether lease financing, used to control the agency costs of debt, is used as a substitute or complement to mechanisms such as corporate governance, managerial incentive compensation used to control agency costs of equity. They found that leasing is complementary to governance and incentive compensation suggesting that firms try to control simultaneously the agency costs of debt as well as external equity.

For the purpose of this research work, this theory 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. Therefore, Agency cost theory will be adapted as underpinning the present research, thatthere are significance effects of leasing on performance of businesses.

Empirical Framework

Fidelis (2019) Examined the relationship between lease financing and profitability of Nigerian quoted conglomerates for the period spanning 2019- 2017. The study focused on 6 conglomerates that are quoted on the Nigerian Stock Exchange as at 2017. Data were collated from published accounts of the affected companies. Data were analysed using descriptive and

pooled ordinary least square multiple regression statistics. Unit root test was conducted using Augmented Dickey–Fuller. Estimated panel results indicated a negative and insignificant impact of fixed assets turnover on return on assets (ROA), lease financing (LFN) had a positive and insignificant impact on ROA, and long-term debt ratio had a negative and insignificant impact on ROA. Firm size was used to control possible problem of non-linearity and heteroscedasticity. Based on these findings, leasing option was recommended as one of the sources of debt financing to boost the capital of Nigerian conglomerates to enable them to absorb losses, multiply fixed assets and grow continuously, thus providing employment and income in terms of tax revenue, profits, dividends, and wages and salaries to households for national growth and development.

Umar, (2016) Carried out a study on lease financing and financial performance of companies. It aimed at examining the impact of lease financing on the financial performance (measured by Return on Asset (ROA)) of Nigerian oil and gas companies. The data for the study was collected from annual reports and accounts of 6 sampled companies in the Nigerian Oil and Gas industry, that are engaged in lease financing and were also listed on the Nigerian Stock Exchange (NSE) not later than January, 2005. Robust OLS regression analysis was used to analyze the impact of lease financing on return on assets (ROA). The results of the study revealed that lease financing has significant impact on the ROA of oil and gas companies in Nigeria. Therefore, the research recommends that firms should embrace lease financing as a method of financing their operations as evidence suggests that value is added throughthe use of lease financing.

Nyachieng'a (2019) conducted a study to establish and analyze whether policy and legal framework, access to information, level of education and resources are factors that determined access to lease financing in Kenya among small and medium enterprises. The study employed the use of descriptive research design where by data collected were presented without the researcher influencing the findings in anyway. The target population for this study was 50 entrepreneurs of SMEs in Kisii Municipality. The findings of the study indicated that the respondents lacked access to information and as a result lacked access to credit. The study concluded that lack of adequate knowledge prevented SMEs from generating lease from banks or leasing companies due to their weak accounting standards since majority did not have tertiary education. As a result of this it was difficult for leasing firms to obtain information about prospective borrowers.

Nwende, (2020) carried out a study on the effect of lease financing on the financial performance of all firms listed in nairobi stock exchange**.** The general objective of this study was to establish the effects of lease financing on the financial performance of companies listed in Nairobi Securities Exchange. The population under study comprised of companies' annual financial reports for the companies listed in Nairobi Securities Exchange that use lease financing as a means of acquiring equipment's. The period of study was seven years (2007 to 2013).The

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study found that there is a positive significant relationship between lease financing and Return on Equity. This shows that lease financing has a positive influence on a firm's efficiency in generating profits from every unit of shareholders' equity.

Conclusion

The results of the study showed that lease financing has positive impact on the performance of SMEs in Nigerian. The effect of leasing option on the profitability of SMEs with a view to promoting economic growth and development are enormous. The study established that leasing suits the level of development of the Nigerian financial market and should be utilized as debt financing in order to boost the capital of firms for enhanced financial operation. Judicious application of debt enhances profitability. Lease financing also permits a company to avoid many of the uncertainties associated with equipment, provides flexible alternative to cash in the acquisition of business-critical assets and equipment. It allows companies to procure equipment at a fixed rate, for a fixed period of time, without having to purchase the equipment from cash or working capital. The research concludes that lease financing has significant positive impact on financial performance of firms in Nigeria.

Recommendations

Achieving organizational performance through finance leasing among Small and Medium Enterprises (SMEs) involves careful planning, strategic decision-making, and effective execution. The study proposes these recommendations to help SMEs leverage finance leasing for improved organizational performance:

Understand Finance Leasing: Ensure a clear understanding of what finance leasing entails. Finance leasing involves obtaining assets for a specific period while paying regular lease payments. At the end of the lease term, SMEs may have the option to purchase the asset at a predetermined price.

Assess Financial Needs: Identify the specific assets that are crucial for your business operations. Conduct a thorough assessment of your financial needs, taking into account the type of assets, their lifespan, and the potential impact on revenue generation.

Financial Analysis: Perform a comprehensive financial analysis to compare the costs and benefits of finance leasing versus purchasing assets outright. Consider factors such as upfront costs, interest rates, tax implications, and potential resale value of the asset.

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Cash Flow Management: Leasing allows SMEs to conserve cash flow, as they typically require lower upfront payments compared to outright purchases. This can free up capital for other essential business operations or investments.

Alignment with Business Strategy: Ensure that the assets being leased align with your overall business strategy and goals. The assets should contribute directly to operational efficiency, revenue generation, or competitive advantage.

Vendor Selection: Choose reputable vendors or lessors with a track record of providing quality assets and reliable services. Research and compare leasing terms, interest rates, and customer reviews before making a decision.

Lease Term Negotiation: Negotiate lease terms that are favorable to your business. Longer lease terms might lead to lower monthly payments, but ensure that the lease period matches the asset's useful life.

By carefully considering these recommendations and tailoring them to the specific business context, SMEs can effectively leverage finance leasing to enhance their organizational performance.

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