INVESTIGATION OF LEASING IN ASSET FINANCING: A CASE STUDY OF INVESTMENT COMPANIES LISTED AT NAIROBI SECURITIES EXCHANGE

BY

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UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

FALL, 2016
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A Project Report Submitted to the Chandaria School of Business in
Partial Fulfilment of the Requirement for the Degree of Masters in
Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY –
AFRICA

FALL, 2016
DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University – Africa for academic credit.

Signed: ___________________________   Date: ___________________________

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This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________   Date: ___________________________

Dr. Amos Njuguna

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ABSTRACT

The lease or purchase decision is a standard issue talked about in most financial course readings. The purpose of this study was to assess the effects of lease and purchase decisions on assets management in Kenya in selected investment companies. The study sought to determine the main considerations in making leasing decisions, the benefits of leasing assets and the key challenges which are faced while making key leasing decisions. The study adopted descriptive research design using primary data which was collected from investment companies listed in the Nairobi Stock Exchange Market in the CBD Nairobi County using a questionnaire. Data was analysed using frequencies and percentages. Cross tabulation was used to illustrate the different responses given while the findings were presented using frequencies, graphs and charts.

The study found out that leasing services were valuable to the organizations and they were greatly used in ICT, Finance, Human Resource and Administration. On the benefits of leasing, most of the respondents indicated that the benefits listed were realised to a great extent in the different sectors. In the construction and allied and agriculture sectors, the respondents indicated that the benefits were mildly felt. Other additional benefits included no upfront payment required, not affected by inflation and its less capital intensive.

On leasing considerations, majority of the respondents indicated that the considerations given were felt to a great extent in the different sectors except in the construction and allied and the agriculture sectors. Other considerations included terms of the lease, monthly budget for the leased asset and impact on the working capital.

On the challenges of leasing, most of the respondents indicated that the challenges given were felt to a great extent in the different sectors except in the construction and allied, manufacturing and allied and the agriculture sectors. Other challenges given include long term cost of the leased asset and complicated contract terms.

Some of the recommendations which were given to try and address these situations were given in threefold. Regarding the investment firms, it was found to be integral for effort to be made in order to improve the efficiency of capital and property markets through availing information on lease financing. Investment firms also needing to lease were
required to have an idea of the timings of the property cycle. This could help them lease optimum benefits during the boom cycle since conditions were much favourable. Investment companies were also needed to act proactively especially regarding real estate requirements and the different needs they have. Property ownership or leasing is guided by different factors such as the profitability of the company, its growth prospects, the future needs and different uses as well as property market conditions.
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D – Debt
A – Assets
E – Equity
LTD – Long term debt
ROA – Return on assets
ROE – Return on equity
IPO – Initial public offer
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

The 2008 global financial crisis and the collapses of colossal organizations such as General Motors, Lehman Brothers, Bear Stearns, among others, brought to the forefront of capital markets research the importance of management of organizational resources, and especially working capital management from global perspective (Adejoh, 2013). Since the mid-1980s governments of various industrial countries had, to a large extent, relaxed their controls on financial institutions (Tufano, 2011). Such liberalization, together with a volatility of exchange and interest rates never before experienced, generated a string of new financial instruments specially designed to handle different kinds of risks. These derivatives such as loan financed trading, futures and options and forward rate agreements have been widely accepted in the international financial community. It is notable that the volume of their transactions in any period of time varies directly with the degree of turbulence in money markets. New financial instruments such as bonds, credit derivatives and swaps are issued from academic research and or the macro finance crisis and or the financial needs of large international companies (Arnold, 2009).

Global firms achieve their objectives of maximizing shareholders’ wealth by making successful investment decisions, which generate positive net cash flows. The leasing decisions concerns whether the firm should lease equipment, or borrow money and buy the equipment hence becoming a financing decision. Corporate managers should examine the cost of both leasing and borrowing in order to select the cheaper method of financing which increase the market value of the firm (Mohammad & Shamsi, 2008).

As indicated by Leaseroupe & KPMG (2012), lease financing as a form of financing goes back to 2000 BC in Babylon and Egypt. As indicated by Lewis & Schallheim (2012), the leasing industry has developed altogether in the course of recent years. It began in the 1950s in the US and reached out to Europe and Japan in the 1960s, and has been spreading through developing nations since the mid-1970s. Somerville & Robin (2004) noted that the main advancement that permits the improvement of the industry is the coordination of sources of huge long-term reserve funds with the requirement for long-
term borrowing. Beginning in the 1950s, annuity funds and insurance agencies with a lot of cash to contribute expected to analyse and understand predictable long-term rates of return for these funds (Weiss, 2003). The airline industry had an exceptional requirement for a lot of cash flow to back the procurement of new air craft. Tackling the debt needed to buy new planes would, then again, disable any airline financially as observed at Kenya Airways (William, 2005). Through leasing, airlines had the capacity to secure the long-term utilization of their planes without handling extra debt. Consequently, the first financiers got a steady, long-term return on their funds (Leaseroupe & KPMG, 2012).

Lease financing is a significant source of funds in acquisition of assets. In 1996, leasing gave an eighth of world's yearly equipment financing (McGregor, 1996). According to Somerville (2004), lease (Asset-based) financing has developed more than 10% a year from about $40 billion in 1978 to over $460 billion in 2003. North America is the biggest local market and represented almost 47% of worldwide activity in 2002 followed by Europe with 35% and Asia with 15%. Whatever remains of the world represented less than 3% in 2002. The significance of leasing is accentuated universally by Leaseurope (2003), who noticed that in Europe it represented 14% of capital structure. Imhoff, Lipe & Wright (2010) observed that in the United Kingdom leased assets accounted, for more or less 20% of all UK corporate capital investment. A research by Global Insight (2007), a financial and economic forecasting organization, shows financing is addressing an unsatisfied interest for financing and that equipment leasing industry delivered between $100 and $300 billion extra real GDP in the US in 2004, other than the $220 billion in extra real equipment investment and the creation of more than three million job opportunities (Erman, 2011).

An entity's non-financial assets can be acquired either through outright purchase or leasing arrangements. According to Erman (2011) when making a ‘lease or buy’ decision an entity must not only consider the financial implications of the options including the government's procurement criterion relating to ‘value for money’, but consideration must also be given to long-term strategic priorities and to qualitative factors. It is important to understand the implication of both options for the service delivery needs of the entity when determining the most appropriate option (De Laurentis & Mattei, 2011). Financial leases include several arrangements such as buy-back, leaseback, renewal or break options; providing occupational flexibility for the user. In financial leases (or capital lease) arrangement, the user firm or lessee selects the asset and arranges with the leasing
firm or lessor to finance the purchase, simultaneously executing an agreement to lease the asset from the lessor (Imhoff, Lipe, & Wright, 2010).

Most financial leases are arranged for brand new asset. Financial leases are also called full-payout leases because payments during the lease term amortize the lessor’s total purchase cost (residual value is typically 0% to 5% of original acquisition price), covers his interest and profit. They are usually net leases with long term financial arrangements (Kweku, 2007). The lessee generally has the option to renew the lease at a relatively reduced rental payment on the expiration of the primary period of the lease but does not have the right to cancel the lease during the primary period. These are typically of a longer lease term than operating leases and can sometimes be interest rate linked (Tufano, 2011). When leasing an asset the entity only pays for the use of the asset over the term of the lease and ownership of the asset does not pass to the entity at any stage unless the lease contract specifically states it. Leases where substantially all the risks and rewards incidental to ownership are transferred are usually classified as finance leases. When buying an asset, the entity pays the full cost of the asset at acquisition date and has full ownership over the asset (Wilkins & Zimmer, 2011).

African countries have recently seen an enormous growth in the leasing of business assets like cars and trucks, computers, machinery, manufacturing plants and agricultural land in addition to the traditional common leases of houses, office space and automobiles (Ombija, 2007). The obvious explanation for this growth is the advantage to the lessee being able to use an asset without having to buy it. However, the lessee is obligated to make periodic payments, usually monthly or quarterly. The lease contract also specifies who is to maintain the asset (Osaze, 1993). A finance lease is recorded as an asset when the transaction (contract) is entered into and, similar to the outright purchase option, will give rise to depreciation expense as would be the case of other assets controlled by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is required to be fully depreciated over the lease term or its useful life, whichever is shorter (Adedeji & Stapleton, 2011).

In Kenya the leasing industry is expected to grow in the coming years as the government changes its policy on purchase of assets. The Budget Policy Statement (2015/16) presented in the National Assembly by the cabinet secretary in charge of finance, Hon. Rotich, had provided for an estimated Ksh. 7.7 billion for lease financing of
Police/Prisons motor vehicles. This will bring the total number of Police vehicles under the leasing programme to 3,200 since the time it was started two years ago: Ksh 15.0 billion for military modernization; Ksh 10.0 billion Police Security Modernization; Ksh 1.7 billion for Police Medical Insurance Scheme; Ksh 1.3 billion for Police/APs Houses; and Ksh 6.4 billion for AMISOM/Peace Keeping Missions (Otieno, 2012).

Kihara (2013) pointed out that the shift in government policy to adopt leasing solutions is likely to spur ripple effects within the private sector. With the government leasing about 1200 vehicles to equip the police force, it’s likely to eliminate asset and maintenance risks, enhance flexibility on fleet composition and reduce administrative burden. Leasing improves financial performance by influencing the cost of capital (reducing the leverage level) improves the working capital of the firm (since the untied cash can be invested in cash generating project and efficiency in utilization of the assets as it was discussed in the literature review (Tarus, 2013).

According to Stulz & Johnson (2011) the non-cancellable long -term leases help mitigate the underinvestment problem due to debt overhang identified by Myers (2011). The underinvestment problem is mitigated because of the legal standing of leases to all outstanding fixed claims. By segregating the claim on new project’s cash flows, leasing, unlike debt, limits the wealth transfer from stockholders to existing bondholders. This helps firms undertake some positive NPV projects which are otherwise foregone with risky (unsecured) debt financing. Sharpe & Nguyen (2013) and Ezzell & Vora (2011) found out that leasing reduces external financing costs due to asymmetric information. Due to competition among lessors, part of the tax benefits may be passed on to the lessee in form of lower lease payments. However, the attraction to lease an asset as opposed to buying it is not due to the existence of taxes per se, but due to the divergence in abilities of the various parties to realize the tax benefits associated with owning an asset (Crosby, 2003).

Generally, all lease arrangements will fall into one of the following three types of lease financing: a sale and lease back arrangement, direct leasing and leveraged leasing (Osaze, 1993). Leases can also be classified as either operating or finance (capital leases). While these types of leases differ in their legal, tax and accounting treatments, they are all viewed, in the theory of finance, as part of the financing decisions of the firm. Some of the common advantages of leasing as that accrues to a firm are: less costly, financing at
fixed rates, protection against Obsolescence, flexibility and off balance sheet financing (Gudikunst & Roberts, 2013).

1.2 Statement of the Problem

Prior to the 1960s, leasing was most often associated with properties such as land and buildings. Currently, although land and building still forms major parts of the subject matter of leases, this has been extended to include other capital assets (office equipment’s, cars, plants and machinery etc.) through the concept of lease financing (Golan, 2008). However, various studies offer mixed results in relation to federal and private companies leasing. Munga and Ayuma (2013) conducted studies around factors which influence lease financing in public institutions in Kenya; While some authors such as Leaseroupe (2003) highlights on the major advantages of leasing in the public sector, other authors indicate otherwise. This means that by adopting the lease financing the government may be losing on taxes and hence lease financing can end up being more costly than purchasing. It is however surprising that lease financing has only achieved a widespread use in developed countries and remains hardly known in most developing countries. In most developing countries capital markets are relatively undeveloped and banks are often unable or unwilling to undertake term lending. Moreover, although the lease versus buy decision is a standard problem discussed in most financial text books, the discussions are often centre on chattels rather than real estate (Ghyoot, 2013).

Generally, as suggested by Ghyoot (2013), leasing as an alternative source of finance has not been given much thought of and taken advantage of in most developing economies (Krishnan & Moyer, 2014). A research by Mohammad & Shamsi (2013) entitled “determinants of financial leasing development,” asserted 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. Secondly, leasing can be seen as a substitute for debt finance because it reduces debt capacity. However, the research left a gap since, given the fact that lessors have first claim on the assets leased, leasing is likely to be advantageous for financially distressed companies that can’t fulfil the requirements for getting bank loans. However, the findings noted that firms are faced with great challenge of maximizing shareholders’ wealth in amidst of turbulent business environment. Investment firms listed in the NSE employ lease financing because the banks in Kenya charge high interests that keep on fluctuating, the tax implications and the
fact that leasing conserves cash (Kibet, Soi & Koskei, 2013). So clearly there is a financial knowledge gap that needs to be addressed. Perceptions must change in order for businesses to properly understand that they have access to cash by means other than the traditional bank loan and overdraft.

According to a research by Tarus, (2013), “Determination of the factors influencing the growth of finance leases in Kenya,” there exist management gap because little has been done for developing markets. Previously, Tarus (2013) did a research on the factors that influence the growth of finance lease in Kenya. He found out that many firms employ lease financing because it helps in conservation of cash flows and guards the firm against obsolescence despite having a complex accounting practice and legal regulation but nothing was said about how it affects financial performance. This study therefore, sought to fill this gap and answer the question as to: What are the effects of lease and purchase decisions on assets management in Kenya case study of selected investment companies.

1.3 Purpose of the Study

The purpose of the study was to evaluate the use of leasing as an asset financing strategy by investment companies listed at the NSE.

1.4 Research Questions

1.4.1 What are the benefits of leasing assets?

1.4.2 Which are the main considerations in making leasing decisions?

1.4.3 What are the challenges faced in making leasing decisions?

1.5 Importance of the Study

1.5.1 Finance Directors and Managers

The directors and managers who are charged with duty to raise and deploy capital and making financial decisions would profit by knowing the principle factors that are vital when making decisions on when to use leasing as a source, and how the decision affects the organizations. From the findings of the study, it’s hoped that these managers have
been guided and better informed when they consider lease or purchase decisions for their firms.

1.5.2 Suppliers of non-equity funds

The suppliers of non-equity finance to such firms take different types of risks, particularly default risk. In endeavouring to streamline risk and return, they would profit by knowing the key components that focus the level of debt of organizations so they can better survey any financing demand that they may get or take suitable activities if they have provided the necessary funds. Depending on the findings of the study, creditors will be better informed on whether to provide pure credit facilities or provide leasing options especially for highly levered firm(s) facing financial distress. Also, policy makers and the business community in general will be guided when formulating policy options and regulation on lease financing in the country.

1.5.3 Investors

Investors will be assisted in making rational investment decisions based on the financing decisions taken by executives in various firms. By understanding the implications of leasing Vis a Vis purchase of assets on the financial performance of the firm, the investors will be better placed to identify firms with greater potential to grow their wealth.

1.5.4 Strategic Planners

The service in planning financing strategies additionally needs to consider leasing as an optional source of financing particularly with expanding spending plan requirements. Further, to empower capital development and investment, the service ought to plan regulations and tax structures that will help the development of leasing. The findings of the study will guide the strategic planners when formulating policy options and regulation on lease financing in the organizations.

1.5.5 Researchers and Academicians

The research is intended to contribute to the theoretical literature and empirical studies on lease financing practices in Kenya and the East African region. We intend to inspect a scope of taxation, accounting, asset and firm attributes influencing leasing decisions
which add to the comprehension of lease financing by giving far reaching cutting-edge confirmation of leasing decisions over the NSE listed firms.

The study will generate new knowledge by giving a multidimensional view on the effects of lease and purchase decisions on asset management in Kenya and contribute to academic research that it is supposed to serve.

1.6 Scope of the Study

The study was conducted among selected investment companies listed in the Nairobi Stock Exchange Market in the CBD Nairobi County. The population scope consisted of General Managers, Finance Managers, Accountants, Credit Managers, Marketing Managers Front Office Managers, Assistant Managers and Sectional Heads within 31 companies listed in the NSE. The study was conducted between the months of October and November 2015.

In conducting this study, the limitations that were experienced included the unwillingness of respondents to provide accurate information, the inability to schedule appointments with the top managers, the quality of information collected, confidentiality especially on financials and interviewer errors. To ensure these limitations were mitigated, an introductory statement was prepared to explain clearly the purpose of the study. The respondents were guaranteed confidentiality of their personal and business information. On the same level, the interviewers were trained on interviewing skills and employed the services of quality checkers to ensure completeness of data collected.

1.7 Definition of Terms

1.7.1 Lease

A legal document outlining the terms under which one party agrees to rent property from another party. A lease guarantees the lessees (the renter) use of an asset and guarantees the lessor (the property owner) regular payments from the lessee for a specified number of months or years. Both the lessee and the lessor must uphold the terms of the contract for the lease to remain valid (IFRS, 2015)
1.7.2 Investment
Investment refers to the buying of a financial product or any item with anticipation that positive returns will be received in future (Legum, 2005).

1.7.3 Firms
Businesses such as sole proprietorship, partnership or corporation of a business organization that owns or operates one or more establishments (Cambridge dictionary, 2015).

1.7.4 Industry
Group of firms brought together to accomplish a common goal. In addition, it refers to a group of companies that are related in terms of their primary business activities.

1.8 Chapter Summary
This chapter provided an introduction to the area of study. It outlined the main objectives that the study intends to cover being benefits of lease financing, considerations of leasing decision and challenges in leasing of assets in investment companies. The chapter further gave an introduction on the state of leasing versus purchasing in Kenya and the forces that influence the sector. In addition, it illustrated the existing gaps in the available information to aid decision making. Lastly it outlined the purpose, importance and scope of the study.

In Chapter Two, the study endeavoured to conduct literature review of various sources of information. In detail, the chapter explored information available on the study objectives. The research questions guided the literature review chapter.

Chapter three outlined keenly the research methodology which was used in conducting the study. It further highlights the research design which was employed to ensure the study was a success. In the study, I was able to illustrate the sample which was used and the sampling techniques used to arrive at the selected sample size. It also highlighted the data collection and analysis methods employed in completing the research.

Chapter four dealt mainly with the analysis of the findings which were gathered from the respondents. It highlighted the composition of the respondents starting from the response
rate and detailed all the crucial information pertaining to the research. The respondents were analysed on their work experience, frequency of utilizing leased services, job position in the organization, benefits derived from leasing, leasing considerations and the various changes accrued in the leasing standards. This chapter tried to give a detailed and clearer image on the effect of leasing and purchase decisions on asset management in Kenya.

Chapter five presented the key findings obtained, gave a concise conclusion and came up with different recommendations. In this chapter, an overall summary is generated around the effect of lease and purchasing decisions on asset management in Kenya. The summary reviewed the integral parts of the research from the research problem, the literature review and the data which was analysed. It basically highlighted the key findings of the research paper. The discussion part of the research paper was able to review keenly both the leasing as well as purchasing decisions. It was able to analyse the key benefits as well as challenges associated with both leasing and purchasing decisions. After the analysis, a lengthy, well put out recommendation was offered on the option best suited to utilize in asset management.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter covers the findings of the literature review of data related to the research topic. A large body of empirical literature exists on the determinants of the leasing vs purchasing decisions. Different authors have examined how leases could be utilized as an alternative form of financing (Lasfer and Levis, 1998; Yan, 2006; Beattie, 2000). Several other authors (Bathala & Mukherjee, 1995; Adams & Hardwick, 1998) found that leases are used as complements to financing options. Leasing benefits, leasing considerations, and challenges in leasing and lease financing are the factors reviewed in this area.

2.2 Benefits of Leasing

2.2.1 Fixed Rate Financing

According to Rowland (2001), Leasing and Finance Management features both fixed and variable rate contracts. The fixed-term lease requires the lessee to make periodic payments and requires the lessor to surrender use of his/her property (O’Mara, 2011). When authoring a fixed rate lease or loan contract, the implicit interest rate is calculated based on the payments defined in the contract. Based on those payments, Leasing and Finance Management calculates the implicit interest rate (O'Mara, 2011). Whereupon the loan rate is fixed, the lease has the option of specifying an interest rate for the contract employed in calculating interest payments. With fixed rate financing, the overall cost of the asset purchase is slightly increased. The advantage however is that it offers the security as well as comfort on an unwavering interest rate. This works contrary to the variable rate financing where there is fluctuation of the interest rate. (Otieno, 2012) For the variable rate lease contracts, periodic interest payments are recalculated by use of an interest index.

Fixed-rate and floating-rate financing plans differ totally in how they expose the capital (principal) and the interest expense. Under a conventional fixed-rate lease, the average amount financed is the basis for the computation of interest. The sole reason that many
conventional rates decline annually is that the lessor recomputes the interest cost annually based upon the average amount financed over each year (Brueggeman, 2011). According to Kibet et al (2013) fixed rate financing plans expose the actual unamortized balance monthly to interest costs. The rental rate changes reflect the changes in monthly interest and the declining capital base.

Merton and Upton (2014) assert that by leasing a lessee can acquire the equipment needed today and use it cost effectively until it no longer meets his/her needs. The lessee can then upgrade and avoid dealing with outdated and obsolete equipment. A company may require the same type of equipment as other businesses, but the cash flow and objectives may be unique. Firms engaged in leasing recognize that each organization is faced with different circumstances and offers options and alternatives to suit virtually every requirement (Credit Underwriting Assessment System, 2014). Businesses that need new equipment now, but are faced with a temporary cash flow shortage may benefit from a "Deferred" lease where payments do not start right away. Businesses with seasonal cash flows may want higher payments during some months, with smaller or no payments during slow months (Grenadier, 1996). A "skip" lease can be of benefit to those clients. Lease agreements can be structured to have payments increase or decrease during the term with a "step" lease (Sharpe & Nguyen, 2013).

Leases may be structured with a residual value at the end of the lease to reduce regular payments, or may fully amortize the purchase price over the term to make purchasing simple and convenient (Shough, 2011). Every year the purchasing power of a dollar declines. While this may be a cause for concern when considering the future value of savings, there are ways to use inflation to your advantage (Asimakopoulos, Samitas & Papadogonas, 2012). The fixed regular payments of a lease mean that future payments are paid with tomorrow's less valuable dollar. This hedging strategy essentially lowers the cost of the leased equipment as time progresses (Letoluo, 2013).

### 2.2.2 Risk of Obsolescence is with the lessor

Alan (2012) noted that when companies purchase equipment, they often keep it long past the optimal point of its useful life. They avoid having to come up with additional capital for an upgrade. In doing so, they lose productivity benefits that could be gained by upgrading and equity value in the asset is diminished as trade-in values decline. If the
nature of the industry demands that an investor have the latest technology in order to remain competitive, leasing is a smart choice. Lease financing programs make it easier and more affordable to upgrade to new equipment on a more regular basis. Leased equipment can be upgraded during the lease term or at expiry. A lease program also implements a structured long-term budget and plan for the replacement of equipment, ensuring that the company remains technologically current and one step ahead of competitors (Leaseurope, 2003).

Leasing allows the lessee to use the equipment that is vital for his or her success, without having to own a depreciating asset or drain more of operating budget than is already necessary. It costs less initially and per month than buying, and has tax benefits that buying doesn’t. When the term is over, the lessee can walk away from the equipment or buy it with the advantage of having used it first to assure that it meets his/her needs (Glautier & Underdown, 2011).

Mohammad and Shamsi (2008) asserted that technology is improving at an increasingly rapid pace and it is not uncommon for a piece of machinery to become virtually obsolete within three years. Most capital leases run between one and five years. This means that the lessee will not be stuck with outdated equipment since the terms of the lease usually enable them to replace old machinery with something more up to date. It is difficult to sell outdated equipment. Should an individual or company purchase equipment outright and it is replaced in the marketplace by a superior product, the owner will certainly incur a large loss on the sale. Leasing is an extremely attractive option for all computer hardware and software purchases because technology becomes outdated very quickly. With a lease, the risk of getting caught with obsolete technology is lower because one can build upgrades and add-ons into the lease (Chigurupati & Hegde, 2010).

Hite, Owers & Rogers (2011) pointed out that business owners who lease their equipment, find leasing terms and condition as a simple process that is they return their units at the end of the lease period and walk away hassle-free. However, those who own the equipment have a responsibility for proper disposal and most don’t have the resources to accurately price, market and resell used items. Disposing of electronics is even more complicated; PCs and office imaging products need to be properly wiped of all proprietary data so there’s no security breach when they’re re-sold (IASB, 2011).
Okoth (2012) established that companies in lease agreement might not use equipment in the way they’d expected, or as much as they’d expected. That’s because businesses downsize, expand and move constantly so their equipment needs are always changing. One way to manage this is to match the term of the equipment lease to the term of the office lease. For instance, in the construction industry, it’s common for contractors to take on projects that require expensive and highly specialized equipment but the cost of a month-to-month rental can be high. On the other hand, buying a new piece for a project that’s expected to last only two years seems inefficient. Leasing allows a builder to match the use of specific equipment with a project’s end date and then bundle that cost into its bid. Before committing to any large purchases, managers should carefully consider the consequences of ownership and the alternatives. Many of the most common risks of ownership can seem far down the road when you’re making a purchase. Leasing offers advantages that are too often overlooked (Yan, 2012).

2.2.3 Ability to Transfer the Lease to another Person before the End of the Contract

Otieno (2012) noted that an increasingly important aspect of leasing is the ability to transfer the lease to another person before the end of the contract; according to Stiberman (2014) today’s consumers expect more flexibility and want to be able to change cars more often, which used to be difficult to do under a lease contract. Value retention is dependent on the quality of the asset occupied. In other words, it is determined by whether or not a building is desired by another user or investor. The question is; “is ownership or leasing better for the purpose of value retention”? It does not matter, as suggested by Letoluo, (2013) because the quality and conformity of building are totally independent of its financial structure. Deductively he concludes that since value retention is the most important element of liquidity, and liquidity is the most important determinant of flexibility, the lease can have only a limited impact on flexibility. Leased equipment allows the user to remain at the forefront of technology (Glautier & Underdown, 2011).

According to Alan (2012) commercial entities, universities, or other government agencies that lease equipment to the government have an established life cycle associated with the equipment that they provide. When that life cycle is exceeded, new equipment replaces old. This advantage is only realized on items with a short technological lifespan. A disadvantage to this replacement in kind system is the burden of keeping track of the
equipment. The contractual management of lease agreements is often cited as a contributing factor to the government’s reliance on the full up-front purchase of equipment. It is a commonly held belief that dealing with vendors from a fleet unit is nearly impossible but there is no supporting evidence to support this claim (Mohammad & Shamsi, 2008).

Tarus, (2013) posed that there is a system in place to get things done when trying to deal directly with a vendor and from experience this process is extremely painful and slow but not insurmountable. For investment companies, maintaining accountability of thousands of units can be a troublesome task, specifically since each unit is not the true owner and a system must be in place to identify where each piece of equipment is. There is need to have a better system in place for dealing with vendors to correct issues as they arrive to enable the sellers and its users to be more responsive to meet demands (Meziane, 2010).

No financial innovation can be regarded as useful, nor will it survive, unless it creates benefits to at least one of the parties involved in the contract. The benefits could be lower taxes paid, or reduction in the risk, such as the foreign exchange exposure of a corporation or government as observed by Frame and White (2004). More generally, UNEP FI African Task Force (2002) notes that the contribution of any financial innovation lies in the extent to which it helps to complete the set of financial contracts available for financing or investing, positioning or hedging. They are introduced in response to some market imperfections (Leaseurope, 2003).

2.2.4 Ease of Disposition

Ease of disposition and value retention are strongly related, since a desirable building would not only retain its value but would also be easy to dispose-off. The only difference stems from issues like market size and real estate cycle. More often poor disposition timing occurs since corporations tend to dispose-off real estate during recession which coincides with weak real estate market (Adedeji & Stapleton, 2011). The own (lease) decision have much impact on ease of disposition than value retention. As Golan (2008) argues, ease of disposition is the only element of flexibility where leasing can be superior to ownership”. Gallardo (2013) concludes intuitively that leasing is more flexible than ownership only if the need for space could be matched very closely with the lease expiration.
According to Merton et al (2014) with leased equipment, the owner or vendor assumes the responsibility of disposing of the equipment. In property firms case this frees up such things as “bone yards” areas where outdated equipment just sits and wastes away. By getting rid of these areas, nothing but land used solely for storage, will free up the equipment and personnel assigned to guard and maintain them (Gilligan, 2004). A service performed by contracted or company personnel, which in either case takes money, personnel, or both away from activities where they could be put to better use. Not only is this old equipment just sitting, not adding any value to the investor, but the acres of land it is sitting on is wasting away as well. This land could be used to expand our ever-shrinking training areas, or sold as offsets to help reduce base costs that support these areas. The disadvantage to this lies in the industry life cycle of that equipment (Wakelin et al, 2003).

The acquisition or ownership of land as well as any property attached to it are subject to the laws of Kenya; and these laws do not allow freehold ownership of land. The law provides that Non-Kenyans can have access to residential, commercial, industrial or agricultural lands on leasehold basis up to 50 years subject to renewal. This implies that a foreigner cannot assign or sublet his property for more than 50 years. On the other hand, the law provides that Kenyans could have access to land for 99 years for residential purposes and 50 years for non-residential purposes. The regulations imply that no lease term could exceed that specified by the head lease in both cases. Leases are therefore of varying length ranging from short-term (5-10years) and long-term (10years plus). Both residential and non-residential properties in the formal sector are let on varying lease terms. Lease lengths run from five years upward, typically with provisions for rent reviews to market values every three to five years. Traditionally most corporations in Kenya prefer to own their real estate because real estate is seen more as an input that is required for production rather than as an investment vessel which requires profits (Alan, 2012).

2.2.5 Flexible Payment Options

Ownership provides more control over a property than leasing because the user is the only equity party in decision making. Leasing levels expenditures in relation to the budget in the shorter-term and reduces spikes due to unforeseen costs related to purchase contracts. Unlike full up-front purchases where large expenditures in particular fiscal years create
spikes in spending, leases are considered operating expenses and therefore spread costs over time (Mohammad & Shamsi, 2008).

Fisher (2014) asserts that by reducing the upfront cost of new programs through leasing, investors can generate substantial cost savings over time. Savings that result from reducing procurement delays due to requirements creep, fielding higher quantities to spread research and development costs over greater numbers, and placing costs schedule and performance risk on the contractor. The primary disadvantage to this is committing to a multi-year contract with one vendor and one technology. This could potentially limit the investor’s ability to deploy in response to emerging threats due to legislative mandates, federal requirements, or other unforeseen challenges. Investors cannot become a slave to one vendor and its technology (Asimakopoulos et al, 2012). The comparison may be burdensome in practice. Projections of rental incomes, operating expenses, loan payments, tax implications and selling price has to be forecasted several years into the future. It is preferable to do the analysis on after tax basis to eliminate tax implications in items such as interest rate, depreciation, capital gains and operating cost which differ between regions and property types (Mohammad & Shamsi, 2008).

According to Krishnan & Moyer (2014) real estate leases are usually operating leases since the lease period is most often far less than the economic life of the asset. He argues further that if no differences exist between leasing and buying, then the NPV of the two cash flows should be the same. This is however not the case because of relative tax savings and leverage. The income received in the first year is often negative as a result of tenant improvements and free rental periods. Another important consideration in the cash flow projection is the salvage or reversion value.

2.2.6 Tax Benefits

For both investor claimed and not-for-profit driven organizations, tax impacts can assume a critical part in the lease-versus-purchase decision. For investor claimed organizations, everything of every lease instalment is a tax deductible cost for the lessee given that the Internal Revenue Service (IRS) concurs that the agreement is a bona fide lease. Lease contracts must be composed in a structure adequate to the IRS. A lease that agrees to the majority of the IRS prerequisites for taxable organizations is known as a rule, or tax situated, lease (Slotty, 2009). In a rule lease, possession (devaluation) tax reductions
collect to the lessor and the resident’s lease instalments are completely charge deductible. A lease that does not meet the tax rules is known as a non-tax-arranged lease. For this kind of lease, the lessee can deduct just the inferred interest segment of every lease instalment. On the other hand, the lessee is successfully the proprietor of the leased equipment; therefore, the lessee gets the tax devaluation assets (Wyatt, 2004).

The purpose behind the Internal Revenue Service (IRS) worry about lease terms is that, without limitations, a business could set up a lease exchange that calls for quick lease instalments, which would be deductible from taxable wage. The impact would be to deteriorate the hardware over a much shorter period than the IRS permits in its devaluation rules. Therefore, if any sort of agreement could be called a lease and given tax treatment as a rent, the agreement could be a more noteworthy tax cover than that accessible through devaluation. This increasing speed would asset the business, however it is immoderate to the service and, henceforth, to individual citizens. Consequently, the IRS has built up principles that characterize a lease for tax purposes. The essential point here is that if investor claimed organizations are to acquire tax breaks from leasing, the lease contract must be composed in a way that will qualify it as a genuine lease under IRS rules. The potential lessee must resolve any inquiries concerning the tax status of a lease contract before marking it (Slotty, 2009).

Not-for-profit driven lessees likewise profit by tax laws, however in an alternate manner. Since not-for-profit driven firms don’t acquire tax breaks from deterioration, the responsibility has no tax esteem. In any case, lessors, who are every single taxable business, do asset from possession. When assets are claimed by non-profit firms, the devaluation tax break is lost, while when assets are leased, the tax reduction is acknowledged by the lessor as opposed to the resident. This acknowledged asset, thus, can be imparted to the lessee as lower rental instalments. Note, in any case, that the tax of tax-exempted debt to not-for-profit driven firms can be lower than the after-tax cost of debt to taxable firms, so leasing is not consequently less exorbitant to not-for-profit driven firms than getting in the tax exempt markets and purchasing (Fletcher, Freeman, Sultanov and Umarov, 2005).

An extraordinary kind of financial exchange has been made for not-for-profit driven organizations, called tax-exempted lease. The real contrast between a tax exempt lease and an ordinary lease is that the inferred interest part of the lease instalment is not named
taxable pay to the lessor (European Commission, 2011). Hence, the arrival bit of the lessor's instalment is exempt from government salary charges. The method of reasoning for this tax treatment is that the interest paid on most debt financing used by not-for-profit driven firms is tax-exempted to the bank, and a lessor is really a loan specialist (Ayadi, 2009). Tax exempt leases give a more noteworthy after-government form to lessors than do ordinary leases, so some of this additional return could be gone back to the lessee as lower lease instalments. In this manner, the lessee's instalments on tax-exempted leases could be lower than instalments on assets obtained by a not-for-profit driven business through a traditional lease (Modigliani & Miller, 2012).

2.2.7 Financial Statement and Ratio Effect

Lease instalments are reported as a cost thing by the lessee in the year they are made (Shough, 2011). From what is seen in the accompanying segments, if the lease is a capital lease, and consequently is recorded on the financial record, the leased asset is devalued every year and the yearly devaluation cost is accounted for on the wage statement. On the other hand, under specific conditions, neither the leased asset nor the agreement liabilities (present value of lease instalments) show up on the lessee's asset report. Thus, leasing is regularly cancelled financial record financing

Several studies conducted found that firms with higher leverage and lower debt capacity are likely to utilize leases as compared to other financing methods (Eisfeldt and Rampini, 2008). When a firm signs a capital lease, it commits to making lease payments and it resembles as though it had consented to a loan arrangement. Inability to make the lease payments in time could render the firm bankrupt similar to how non-payment of premium instalments on loans could result to the firm being liquidated (Abdel-Khalik, 1981). In this manner, under most circumstances, a capital lease has the same effect on a business' financial hazard as does a loan. This being the situation, if a firm consents to a capital lease arrangement, it raises its compelling debt proportion. In this way, to keep up the company's set up target capital structure, the lease financing requires extra value bolster precisely like debt financing. At the end of the day, leasing uses up a business' debt limit (Coughlan, 1980).

There exist several lawful contrasts between loans and leases, generally including the privileges of lessors versus loan specialists when a business in financial pain rearranges
or sells under insolvency. In most financial pain circumstances, lessors charge superior to anything loan specialists, so lessors may be all the more eager to manage firms in poor financial condition than financing lenders may be. At the very least, lessors may be willing to acknowledge lower rates of return than banks when managing monetarily bothered organizations in light of the fact that the dangers are lower (Brown & Wyatt, 2009).

According to Hartman and Sarni (2013), if a particular exposure of the lease is not made, then a particular firm’s speculators may be misdirected into believing that its financial position is more grounded than it truly is. In this manner, even before organizations were obliged to place a few leases on the accounting report, they were obliged to unveil the presence of all leases longer than one year in the commentaries of their financial articulations (Shough, 2011). Around then, a few individuals contended that speculators completely perceived the effect of leases and, as a result, would have presumed that Firms B and L were basically in the same financial position. Then again, other individuals contended that investors would be better served if all leases were promoted (demonstrated specifically on the asset report). Lease bookkeeping prerequisites are a trade-off between these two positions, albeit one that is tilted intensely toward the individuals who support capitalization (Coughlan, 1980).

Use of the seven lease capitalization systems to the financial statements of the five chose organizations for the most part adjusted to desires in Macy’s research. The progressions over each of the seven techniques are averaged to an estimated consensus impact on the financial statements (total liabilities, total assets, total value, and net income) and financial proportions (D/A, D/E, LTD/E, ROA, and ROE). Changes to assets, liabilities, D/A, D/E, and LTD/E were required to be certain, and changes to value, net wage, ROA, and ROE were relied upon to be negative. Correlations over these nine financial execution measures were recognized as "expansive" as far as the course of the average changes (i.e., the biggest positive change or the biggest negative change, individually) (Wilkins & Zimmer, 2011).

By and large, Macy's research showed the biggest average rate change on all measures with the exception of D/A for which it had the second biggest average rate change. To some degree shockingly, ExxonMobil likewise demonstrated an extensive rate change on a few measures positioning first on D/A, second on four measures (asset, liabilities, D/E
and LTD/E), and third on the staying four measures (value, net salary, ROA, and ROE). JP Morgan Chase positioned second on four measures (value, net income, ROA, and ROE), third on one measure (LTD/E), fourth on one measure (D/E), and keep going on three measures (assets, liabilities, and D/A). Caterpillar had the third biggest average rate change on three measures (assets, liabilities, and D/E), the fourth biggest average rate change on three measures (value, D/A, and LTD/E), and the littlest average rate change on three measures (net income, ROA, and ROE) (Wilkins & Zimmer, 2011).

Interestingly, the ROE and Net Income for Caterpillar expanded as a consequence of operating lease capitalization; this was different from both the average result and the conduct of alternate organizations in the example. At last, lease capitalization had the littlest general impact on Pfizer: positioning third on one measure (D/A), fourth on five measures (assets, liabilities, net salary, ROA, and ROE), and keep going on the staying three measures (value, D/E, and LTD/E). In synopsis, lease capitalization had the biggest impact on Macy's retail industry. JP Morgan Chase (managing an account industry), which was relied upon to show the littlest level of progress, had the third biggest level of progress. Exxon Mobil (oil and gas aggregate) and Caterpillar (overwhelming equipment assembling) positioned second and fourth, individually; and Pfizer (pharmaceutical industry) demonstrated the littlest level of progress among the five organizations (Wilkins & Zimmer, 2011).

2.3 Leasing Considerations

2.3.1 Characteristics of the Facility Required

According to Gale & Case (2013), the more specialized or customized the required property, the more definite the indication for ownership and vice versa. Generic office space or warehousing is better leased than owned. Highly specialized property is not likely to be available for lease in location where it is needed. The length of anticipated use of the property is of essence and in general any period shorter than the economic life of the asset (in real estate less than 10 years) may indicate leasing. Another important factor observed is the level of occupancy. A facility that is fully occupied supports ownership while leasing is preferred when less space is required than optimal site development. Moreover, the timing of the need of the facility required is of relevance. If
space is needed immediately, it may be available only through leasing or buying an existing facility (Ghyoot, 2013).

More than ever before there is a global concern to entrench financial deepening access to previously ignored areas due to some areas considered economically unviable where majority of the investment firms operate their businesses. There is an increasing need to promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses and empowering business enterprises by developing financial literacy and financial capability programs to bring all people on board and all to participate in economic development of a country, perhaps agent banking will offer a solution to slow pace of individuals enterprise development especially from the rural areas (Krishnan & Moyer, 2014).

Prior to the 1960s, leasing was most often associated with properties such as land and buildings. Currently, although land and building still forms major parts of the subject matter of leases, this has been extended to include other capital assets (office equipment’s, cars, plants and machinery) through the concept of lease financing. Traditionally most corporations have owned their business real estate and even real estate that has not been in corporate use. However, this notion has been revised in recent times, with an increasing number of real estate divestment and outsourcing. Current research has brought to the lime light that corporate real estate assets are still under managed and it has not been a surprise that many corporations have begun selling their real estate assets and outsourcing related services. In an era where asset metrics such as Economic Value Add and Return on Asset are in vogue, it is no longer acceptable for corporation to invest huge funds in capital intensive asset that are not central to the company’s business (Golan, 2008).

2.3.2 Dynamics of the Capital Market

Dynamics of real estate market and stock market captures the favourability of operating environment for the real estate market related business operations. If a capital market is conducive, which is characterized by increasing industry brokerage turnover, rising Indices levels, more number of IPOs and investment banking deals, this would help a brokerage firm improve upon its financial performance, while keeping associated risks low. On the other hand, un-favourable capital market with declining brokerage turnover,
highly volatile stock prices would not only impact the company’s financial performance but it would also put concerns on its own capital, due to credit risk and market risk associated with brokerage business. While assigning a rating, the focus is generally on the long term trends rather than the impact of any short term volatility (Hite et al, 2011).

A highly specialized property that suit company’s requirement may not actually be available for leasing but could only be obtained by purchase. When an investment firm is contemplating leasing, the presence of an existing company could add more value to the location that ownership is to be considered in order to benefit from increase in land values. Additionally, if market risk affects residual value of property which forms greater percentage of corporate assets, the tendency is to lease. Conversely, if the assets at risk forms small percentage of corporate asset as in large diversified corporations, the tendency is to own (Fisher, 2014).

Leasing, in a form of sale and leaseback trend has been one of the main strategies adopted by corporations outsourcing real estate services. The realization that much capital invested in real estate can be freed up for other potentially more productive uses has led to an increase in sale and leaseback trend (Bortz & Dotting, 2002). This has enabled corporations to get immediate capital injection without additional external financing to support growth or to better the capital structure. In addition, these corporations have obtained more property industry knowledge, economics of scale, tax advantages and increased flexibility through property disposals. A competitive operating environment can have a deep impact on broking firm’s financial and operating strategy as well as on its current and future profitability. Intense competition puts pressure on company’s profitability margins and requires constant innovation for maintaining its margins (Baxter, 1976).

The idea that the corporate real estate ownership is a non-core business has led to an increase in sale and lease back trends in most countries with developed property market. This is in line with Nappi-Choulet (2002) argument that the move to outsource large property portfolio goes hand in hand with a more developed property market. In the United States most corporations have already gone through a similar process of restructuring real estate holdings and have on the average much less (approximately 15%) property on the balance sheet than corporations in Europe (Nappi-Choulet, 2002).
Corporate real estate disposals have increased drastically under 1 billion euros in 1997 to almost 16 billion euros in 2001 (Lapuma 2001, referenced in Grönlund et al 2005).

### 2.3.3 Financial Position of the Company

Companies which have a well-defined policy of maintaining adequate liquidity in terms of un-utilised bank lines and or access to other sources of funding and do not have any problems with meeting/toping up the minimum liquidity deposit requirements of the Stock Exchange would be viewed favourably. While broking companies are not expected to face any liquidity pressures for debt re-financing obligations as they do not have high borrowing levels, they need to maintain adequate margin cover to meet the settlement obligations that will arise particularly, during volatile periods. Any company which is frequently required to resort to unapproved overdrafts from the clearing banks are viewed un-favourably (O'Mara, 2011).

Corporate real estate sale and leaseback can be of several forms depending on the value and quality of the underlying asset and the needs of both parties. However, the underlying principle is that the new owner-lessee obtains title to the asset and other benefits of ownership such as relevant depreciation allowances and tax credits. Leasing would be preferable where the cost of capital is lower for the leasing firm than for company (O'Mara, 2011). Alternatively, where the user firm has a lower cost of capital and can source debt at lower rate than the leasing firm, conventionally it would be profitable to own to access the lower opportunity cost. Nourse (1990) contends that leasing provides off-balance sheet financing (100% financing) and need not reduce the firms borrowing capacity. Additionally, tax considerations would indicate whether the depreciation and interest deductions under ownership are more valuable than lease deductions. Generally leasing as an alternative source of finance has not been given much thought of and taken advantage of in most developing economies (Krishnan & Moyer, 2014).

Among the major functions of an estate or facilities manager is to direct and supervise interest in property with the aim of securing optimum returns. Hence it is essential for property managers to critically analyse and try to synthesize existing literature on the subject matter to provide framework for making the decision. By providing such framework, it must be asserted that, as with most major business decision, there is the need for an intelligent analyst. This is important especially in developing countries where
lease financing has not achieved widespread use and remain hardly known. This study therefore uses the experiences based on previous studies in countries where leasing has achieved widespread use, to unearth the subject matter in developing countries such as Kenya (Hite et al, 2011).

2.3.4 Hidden value of latent asset.

As argued by Hite et al (2011), relatively low-yielding real estate assets are not easily reflected by the market in share prices. In line with this, Brennan (1990) observed that share prices do not always fully reflect the value of the firm’s asset as a result of asymmetric information between corporate managers and investors. This problem of asymmetric information is glaringly evident in latent asset like real estate, which is very difficult or costly to determine its real value. The hidden value in real estate results from infrequent transactions; conventional valuation procedures such as cash flow models which have only tenuous relationship with the firms’ asset; and the fact that real estates are valued according to their net book values. This creates an ever-increasing gap between the net book value and the potential market value, thereby creating an incentive for management to convert them into cash or run the risk of being acquired by another (Bierman, 1999).

As Ambrose (1990) puts, “corporate real estate holdings increase the likelihood of a firm becoming a takeover candidate”. It is for these reasons that Brennan (1990) suggests that companies whose stock prices do not fully reflect the value of their real estate holdings should sell and leaseback. In other words, the latency of the asset value induces firms to convert them into cash when they are positive and alternatively defer realization when they are negative. Sale and leaseback announcement should therefore unleash the hidden value of the latent asset resulting in positive valuation (Bierman, 1999).

2.3.5 Market imperfections

Leasing is often seen as substitute for medium to long term credit, but the answer to the question whether leasing and debt are substitutes or complements is not trivial and has in financial literature not resulted in a clear conclusion. In traditional corporate finance the decision of buying versus leasing is mostly discussed in the context of the Modigliani and Miller (2012) world of perfect capital markets (where in general the capital structure is irrelevant for the determination of the firm value). But in real financial markets, there are
market imperfections. In the area of access to finance for investment companies, a market imperfection/failure is not only present during a deep recession or a financial crisis but also on an ongoing basis as a fundamental structural issue. The reasons for a market failure relate to insufficient supply of capital (debt or equity) and inadequacies on the demand side. This market failure is mainly based on asymmetric information (in the case of debt: information gap between lender and borrower), combined with uncertainty, which causes agency problems that affect debt providers behaviour (El-Gazzar, 1993).

Information asymmetries can be reduced via three ways: a firm’s ability to signal its credit worthiness (including an institutional assessment or rating by an independent agency and the provision of collateral), a strong relationship between lender and borrower, and through due diligence/lenders’ examination (screening). However, this means on the other hand that new or young firms, with a lack of collateral and by definition without track record, are the ones with the greatest degree of difficulty accessing debt capital (El-Gazzar, 1993). Sharpe & Nguyen (2013) found that low-rated firm with poor estimated credit quality (and resulting high costs of external financing) show higher volumes of leasing than highly rated companies since they can reduce their financing costs by means of leasing. Yan (2012) examined the impact of asymmetric information, agency costs and taxes on the substitutability of leases and debt and concluded that they are more likely to be used as substitutes by firms facing more severe asymmetric information and agency problems.

Also Slotty (2009) analysed whether enterprises (for instance investment firms), for which the problem of information asymmetries are severe, lease a greater share of their assets. The analysis concluded that the “descriptive and empirical evidence seems to support the theory that firms which are more likely to suffer from problems of asymmetric information have a greater exigency to leasing”. Moreover, Chigurupati & Hegde (2010) concluded that lessee firms with higher information asymmetry rely more on lease financing; furthermore, they stress that leasing mitigates underinvestment problems by enabling capital expenditures and reducing the sensitivity of investment expenditures to availability of internal funds.
2.4 Challenges in Leasing Decisions

2.4.1 Financial Challenges

Bank owned lessors, except some with temporary problems, generally have deep pockets, plus lending money, in one form or another, is their core business. A cloud on their horizon is the inevitability of banks becoming subject to tighter regulatory controls and capital ratios. Although still unknown how tight, we do know all business lines will be fighting for the available capital and face more demanding returns (Louko, 2004). Independent lessors are dedicated specialists not usually competing internally for capital. They lack the financial muscle of the banks and the product knowledge and customer relationships of the captives. Some independents have disappeared due to loss of funding lines. Funders’ current preference is to lend to businesses producing tangible assets and captives’ manufacturing parents are better placed to raise finance than many financial institutions (Eichholtz & Brounen, 2005).

The notion that lease is a substitute for debt is widely accepted in finance. Accordingly, Myers (2011) argues that lease payments are fixed obligation like other loans and that they displace debt and reduce debt capacity. However, it should be observed that lease agreement is in theory exactly similar to debt only when the tenant is responsible for the asset related risk and management duties, despite the lease agreement making it a financial lease. According to Stulz and Johnson (2011), if a lease of an asset is viewed as a form of collateralized external financing, it should not be able to generate positive returns on equity. Therefore, a positive valuation effect of sale and leaseback can occur in a competitive market only when the financial circumstance of lessor and lessee differ in some way (Aguko, 2010).

Lewis & Schallheim (2012), among others, argues that debt and leases are complements rather than perfect substitutes. They are of the opinion that leasing is a mechanism for selling tax deductions and it can therefore motivate the lessee firm to increase the proportion of debt in its capital structure relative to an identical firm that does not lease. A competitive lessor uses diversification to reduce risk and increase utilisation of tax deduction in order to lower lease payments. In this way a lessor who holds diversified portfolio of leased asset can demand lease payments that are effectively and relatively lower than required by equivalent loan. Additionally, Adedeji & Stapleton (2011)
revealed some evidence that in leasing decision of corporate real estate, the lessee firm accrue positive abnormal returns. However, there is evidence that average abnormal returns are closer to zero or even negative when firms announce new equity or debt issues respectively. One can therefore conclude that if lease and debt were perfect substitutes, then there should be similar market reactions with the announcement of leasing and debt financing.

2.4.2 Changes in Leasing Accounting Standards

Crucially, what may turn out to be the biggest threat to the whole leasing industry are the proposed changes to the leasing accounting standards. All sectors face the challenge of how much lessees will be deterred from leasing once anything that has a commitment goes on their balance sheets. Will the impact for bank lessors be that they are required to hold additional capital? Will independents find that their borrowing gearing ratios become difficult to meet? And will the captives find structures under which they can raise the finance so that their parent still has a true sale and can take profit at the time of the “sale” to their captive? The ramifications of the changes to the leasing accounting standard are likely to have far reaching adverse impacts not only on the leasing industry, but on businesses generally (Tarus, 2013).

In general, therefore, leasing can be said to be an alternative mechanism to facilitate access to finance. It enables the use of capital equipment in particular for new/young enterprises without credit track record and with limited possibilities to provide collateral. Further, it can be argued that leasing is a tool to mitigate market weaknesses in investment lending. Empirical results show that leasing exposures are associated with relatively low risk compared to other forms of financing (Schmit, 2005, and De Laurentis & Mattei, 2009). The presence of physical collaterals contributes very largely to this reduced risk profile (Schmit, 2005). Golan (2008) suggest that this balance makes sense over the long term. When a sizeable differential opens up between owning and leasing, the market moves quickly to the cheaper alternative and eventually drives the price of that option up, while the price of the other option falls. This capital shift restores the balance. For instance, during the boom cycle of real estate market rental rates rise increasing yields and making leasing relatively more costly than ownership.
However, the increased yields attract buyers to the market, driving purchase prices higher until the market equalizes at high rate. Consequently, if Tobin’s Q is greater than one, meaning that the cost of existing building is greater than their replacement cost, development ensues leading to an increase in supply which lowers rent and sends the cycle to it reverse. In effects, entrepreneurs and capital sources would arbitrage away any meaningful differential between leasing and owing before it becomes very large. This implies that although the lease/own decision is financial at its core, market forces usually keep the economics close, making a number of qualitative issues the deciding factors (Golan, 2008).

### 2.4.3 Market Dynamics

Another myth identified in relation to market balance is that ‘the economics of the own/lease options are usually very different’. This is true to some extend in the short run however in the long run leasing and ownership market tend to be in financial equilibrium. Leasing is more economical for short term occupation but ownership becomes more beneficial the longer a user remains in occupation. Subsequently this eventually gets to a break-even point where the two alternatives have the same cost and beyond this point favour ownership. This is because leasing exposes the user to market risk while ownership acts as inflationary hedge to recoup the amount invested (De Laurentis & Mattei, 2011).

Another important issue to consider from the financial perspective is whether corporations ‘really’ divest their real estate in the long-run. As shown by Louko (2014), there is a large variety of possible efficiency gains associated with real estate outsourcing. Among them include; the possibility to increase corporate capital use and performance ratios; possibility to focus on core business where it has comparative advantage; the possibility to increase occupational flexibility and efficient use of space; the possibility to increase real estate asset management efficiency; the possibility to transfer property related risk to experts who can handle it better; and the possibility to change volatile occupancy cost to fixed payments to reduce risk (Louko, 2004).

Banks’ with extremely large customer bases are a strength should their lessors choose these as their marketing route, but historically few banks have fully understood what is needed to be in the vendor business. Additionally, as a bank’s leasing arm becomes more
absorbed into the bank itself, there is the risk of bank culture destroying the very independence and entrepreneurial spirit which has enabled the industry to develop so successfully. Most bank lessors tend for good reason, to be geographically where their parent bank is, but an independent can go where business demands dictate. Independents can usually move faster as they are their own “bosses” (Kibet et al., 2013). Captives are in the unique position of being able to fully understand the equipment, their customers’ needs, to provide under the same banner support services, training, service, maintenance, supplies, add-ons and upgrades. They will better understand the product lifecycle and how to judge residuals. A parent can choose to support its captive in markets where it sells sufficient volume of equipment to warrant it. Additionally, they can become a valuable and marketable “group asset” in their own right if the parent ever needs to realise it (Brueggeman, 2011).

The opportunity cost of reinvestment is the expected rate of return shareholders would have obtained by investing in similar financial asset of the same risk profile themselves. With regards to real estate, the firm’s ability to make profit in real estate investment could be compared to real estate investment trust. Glaringly one could argue that a professional investor like real estate investment trust with a well-diversified portfolio would better handle real estate related risk and make profits than unprofessional property owner who is unable to diversify its real estate holdings or to choose best possible investments from the market. Accordingly, most corporations prefer to outsource their real estate holdings to professionals who would better handle market and property related risks (Adedeji & Stapleton, 2011).

2.4.4 Crowdfunding and property rights

Real estate crowdfunding, which allows small-time investors to buy shares in commercial properties through online marketplaces, is the hot new trend right now, but it remains to be seen whether it’s a good idea. Many of the people who buy property stakes through crowdfunding have little to no experience in real estate management or investment (Aguko, 2010). Property rights are among the most fundamental principles enshrined in Article 17 of the United Nations’ Universal Declaration of Human Rights and constitutionally protected in most states. Despite this worldwide legal recognition of the importance of property rights to building peaceful, democratic, and prosperous societies, access to and protection of property rights vary greatly in practice. What is more, in many
countries, understanding of property rights often remains limited to property titles without deeper appreciation of the underlying and interconnected institutions that make property rights meaningful and allow property markets to function (Okoth, 2012).

In Kenya, property rights recognition has been historically weak given the cultural values held at the time and the corresponding framework of laws and rules. In pre-colonial times, land was held communally at the custody of local clans. Rights were not restricted to use as neither families nor communities could sell, subdivide, lease, or rent to others. Families took turns in carrying out agricultural activities on the land and would move from one plot to another based on the planting seasons and weather patterns. The rights of individuals were not viewed as sacrosanct but instead intertwined with the rights of others, and overlapping with those of families and wider groups (Okoth, 2012).

Colonization introduced a nationwide land registration system that included titling of farm lands. Beginning in the late 1950s and through the post-independence period, titling of farmland as individual freehold property was initially expected to achieve many aims at once: provide security of tenure and protect investments; enable farmers to borrow against a new form of collateral; allow land to pass into the hands of the most able farmers; quell and prevent disputes; improve husbandry through consolidation of holdings; promote political stability; and provide a clear public record of ownership (Aguko, 2010).

However, those hopes soon became frustrated by the lack of title security and politically motivated irregular and frequently outright illegal land allocations. Part of the problem of trying to quantify Kenya’s property market in urban areas is the scarcity and disparate nature of the available data, and gaps in record keeping. For example, although there are plans to introduce digitization of property records, the land registry in the Ministry of Lands is still manually operated, making it difficult to query land transactions. More up-to-date information is available from private property agents and realtors but this information is in some cases not consistent and the reliability and independence of the information may be questionable as there is no centralized public listing of commercial property available (Hite et al, 2011).

The attitude that makes bribery routine in property transactions and widely accepted – or even expected – is a big problem. Even though most government offices have service
charters that specify the time and cost of a given service, they are routinely ignored. As one of the participants said, Okoth (2012) noted that “You can’t get a service unless you do more than what is on the books.” This problem is most acute at the city council level where the issue of bribery is often compounded by the lack of proper qualifications among officials. Therefore, attacking the corruption problem at the top level of the government will not solve the problem as long as it persists in local offices (Aguko, 2010).

2.4.5 Limited economic growth

Kenya is experiencing rapid urban growth in a context of limited economic growth and restricted land supply. Rental housing is expanding as few people can afford their own homes. Rental accommodation in Kenyan towns has usually been associated with low-income households but it has also become the main form of housing for middle-income households and new urban residents of all income levels. In the 1980s, nearly 90 per cent of annual housing production in Thika, a typical small town, was private rental accommodation (Tarus, 2013).

In Kenya, it is difficult to generalize on the nature of rental housing. There are many actors within the informal and formal sectors involved in the supply of housing. There are also high levels of subsidy in the public housing sector which distorts the market, severe rent control laws which are rarely enforced and distorted land allocation practices, all of which limit access by poor urban residents to affordable, decent housing. These factors make it difficult to construct a coherent picture of the overall rental housing sector or to identify the entry point for development agencies to build partnerships with NGOs, CBOs or local authorities for improving the supply of rental accommodation (Golan, 2008).

The amount of rent paid by tenants in small towns varies from one town to another and even within a town. In Kenya, levels of rent are determined by the size of the house which determines the number of rooms available for rent, and the type of building materials used where the main consideration is whether the materials are permanent or semi-permanent levels of rent are also determined by the site and location characteristics of the property and the cleanliness of the neighbourhood. In small towns, tenancy arrangements are less complex and rents are generally lower (Friedman & Stigler, 2013).
The law relating to the relationship between landlords and tenants does not allow either to respond to demands from the other party without suspicion. In particular, it has not evolved to allow tenants to assert their tenancy rights. Most tenancies in low-income private rental units and squatter settlements are not based on written contracts but, rather, are oral agreements between landlords and tenants. Often, landlords or their agents take measures which affect tenants adversely and are contrary to the oral agreement but there is usually little tenants can do to protect their rights. There have been many cases where landlords have sent gangs to forcibly evict tenants who are considered troublesome or capable of exposing landlords to the authorities (Krugman, 2014).

2.5 Chapter Summary

This chapter has provided a detailed and comprehensive literature review on the study objectives. It highlighted and reviewed inputs and contributions from other scholars who have done research and studies on lease financing and its effects on financial performance of firms.

In Chapter Three, the study provides the methodology to be applied. In detail, the chapter defines the research design, sampling design, methods of data collection and data analysis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methods, procedures and strategies that were used in carrying out the research. It will focus on research design, research sample and sampling techniques, data and data collection techniques, data analysis methods, data findings and presentation methods.

3.2 Research Design

A descriptive research design was adopted for this study. This method brings out the current status and characteristics of the subject in the study, another reason is that there will be no alteration of the environment and it will not be manipulated (Mugenda, 2006). Descriptive research was aimed to gather data on independent variables which were leasing benefits, leasing considerations, challenges in leasing and lease financing in relation to dependent variable which was assets management without any manipulation of the research context, focusing on individual subjects and going into depth and detail in describing them. The primary data was collected from investment companies listed in the Nairobi Stock Exchange Market in the CBD Nairobi County. The type of data collected was both qualitative and quantitative. Questionnaires were used to gather information. Data was collected initially and thereafter analysed.

3.3 Population and Sampling Design

3.3.1 Population

Population is defined by as Fisher (2014) as the whole pool from which a measurable sample is drawn. In this study, the population embody all organizations that were listed (for no less than one financial year) at the Nairobi Securities Exchange from the year 2010 to 2014. The aggregate population of all the listed firms is as delineated below:
Table 3.1: Population

<table>
<thead>
<tr>
<th>Number of listed companies from 2010 to</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of listed companies</td>
<td>48</td>
<td>48</td>
<td>52</td>
<td>53</td>
<td>57</td>
</tr>
</tbody>
</table>

(Source: NSE, 2015)

3.3.2 Sample and Sampling technique

Mugenda and Mugenda, (2003) asserts that sampling is that part of the statistical practice concerned with the selection of individual or observations intended to yield some knowledge about a population of concern, especially for the purpose of statistical inferences. They advise that a researcher would have to use 39% of the total target population as a sample size for it to be accepted as a good representative sample. The study will use stratified random sampling procedure to select a sample that represents the entire population. According to Kothari (2004), a stratified random sample is used when the population is not homogeneous, making it the appropriate sampling technique. According to Sekaran (2005), population is a group of individual, objects or items from which samples are taken for measurement or it is an entire group of persons or elements that have at least one thing in common. According to the Nairobi Securities Exchange, between the year 2010 to 2014, there were 48 to 57 investment companies which were listed. The study conducted will target 31 of the listed investment companies which constitutes 54% which is above the Mugenda and Mugenda rule of 30%.

A census of all listed companies in the NSE that have reported use of lease financing in the financial statements over the past 5 years (between 2010 and 2015) was undertaken for the purpose of this study. The sample frame contained respondents who were drawn from the investment companies listed in the NSE 100 2013-2015 participants. This method had also been used successfully by Tarus (2013). APPENDIX 1 shows list of investment companies sample which was used for this research study.
3.3.3 Sample and Sampling technique

Sampling is a process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho & Kombo, 2002). A sample is a small proportion of an entire population that should be as representative of the total population as possible (Kothari, 2004). Perhaps one of the most frequently asked question concerning sampling is the optimal size of a sample. The answer to this question is influenced by a number of factors, including the purpose of the study, population size, the risk of selecting a bad sample and the allowable sampling error (Israel, 1992). The size of the sample should neither be exclusively large nor too small, rather it should be optimal. An optimal sample is one which fulfils the requirements of efficiency, representativeness, reliability, and flexibility (Kothari, 2004).

There are several approaches of determining the sample size. These include using a census for small populations, imitating a sample size of similar studies using published tables and applying formulas to calculate the sample size. For purposes of this study the sample size will be obtained through application of one of the formulas applied in deriving the sample size.

According to Kothari (2004) a sample size may be derived using the following formula:

\[ n = \frac{z^2 \cdot y \cdot ci \cdot N}{e^2(N-1) + z^2 \cdot p \cdot q} \]

Where:
- \( n \) = sample size
- \( N \) = Population
- \( e \) = Acceptable error or level of precision usually given at 5 % or 0.05
- \( p \) = sample proportion of successes
- \( q = 1 - p \)
- \( z \) = Standard variate at a given confidence level, which is 1.96 (as per the normal curve area of the table) for 95% confidence level.

Using a 95% confidence level and precision of 5% or .05 and \( p = .5 \), \( Q = 1 - 0.5 \), the sample size for the population of 57 is:

\[
\begin{align*}
    n &= (0.196)^2 (0.5) (1-0.5) (100) \\
    &\quad + (0.5)^2 (530 - 1) + (1.96)^2 (0.5) (1-0.5) \\
    &= 0.2475 \\
    n &= 79.5
\end{align*}
\]
The sample size represents a subset of sampling units from a population (Frankfort & Nachmais, 1996). Hence the sample size will be 80 rounded to the nearest whole number (table 3.3.3), out of which 20% will be the general managers, Finance Managers and Accountants, 40% will represent credit managers, Marketing managers and Front office managers. The remaining 40% will represent assistant managers and the various respective section heads. The study will adopt probability sampling procedure. The procedure is suitable for the study as any item in the population of the study has an equal chance of being selected. A stratified random sample where population is divided into two or more relevant strata and a random sample drawn from each of the stratum will be used for this study. Respondents will be stratified according to their levels in the hierarchy of management to ensure inclusion in the sample.

### Table 3.2 Sample Size

<table>
<thead>
<tr>
<th>Categories</th>
<th>Target population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Managers, Finance Manager, Accountant,</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>Credit Managers, Marketing Managers Front Office Managers,</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td>Asst. Managers, Sectional Heads</td>
<td>40</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>80</td>
</tr>
</tbody>
</table>

#### 3.4 Data Collection Methods

The study relied on primary data which was collected using a questionnaire that was in line with the study objectives. The questions in study were directly related to the research questions. In the development of the questionnaire the variables for which the information was collected had to be identified followed by their operational definition. The questionnaire was crafted in four parts; the first part covered the general information about the respondents, the second part covered leasing benefits on assets management, the third part covered leasing considerations in assets management and the fourth part covered lease considerations on assets management on investment companies. The
questionnaire consisted of both open ended and closed questions covering all the variables of study. The questionnaire also used the Likert scale type of questions. Open ended questions allowed free responses from the respondents without providing or suggesting any structure for the responses. The closed ended questions limited the responses from the respondents. The Likert scale type of questions was used to determine respondent’s attitudes or feelings about a given subject. In most cases it is used to measure the level of the respondent’s satisfaction or consent rate (Cooper & Schindler, 2007).

3.5 Research Procedure

In line with the research design, the study adopted the use of the questionnaire as the data collection tool. To pre-test the tool, the questionnaire was piloted on five interviewees drawn from the targeted investment companies’ respondents. The pilot study helped the researcher to approximate the interview duration and correct any inconsistencies that may arise from the data collection tool. However, the five interviewees were excluded from the final study. The questionnaires were administered online with the help of the internet technology. Pre testing the data collection instrument was also to aid in ensuring the validity of the research instrument is maintained. It also provided an opportunity to provide revisions on the question structure prior to the final study. After the questionnaire was tested it was sent to the respondents through e mail. To ensure the questionnaire quota was met, the researcher followed up with the respondents. After data collection, the questionnaire underwent through data screening and cleaning. Thereafter, it was followed by questionnaire coding, data entry and lastly data analysis with the help of the statistical package for social sciences (SPSS) program in order to develop inferences to the subject of study.

3.6 Data Analysis Method

This study adopted qualitative and quantitative analysis which according to Cooper & Schindler (2003), data analysis is the whole process which starts immediately after data collection and ends at the point of interpretation and processing. The quantitative method involved numerical analysis of data and this involved use of Excel worksheet. The findings were presented using descriptive statistics methods. Descriptive statistics uses graphical and numerical summaries to give a picture of a data set. Tables and graphs were
also used. The qualitative method involved content analysis, that is, summarization of opinion provided by respondents. The summarized information constituted the study findings.

3.7 Chapter Summary

Chapter three covered the research methodology, explaining the research design that was used in the study. The chapter also justifies as to why the research design is relevant to this study. It also covered on the study population size, the sampling technique, sample frame, and sample size that were used to undertake the study. Chapter Four discusses the research findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The chapter presents results from data analysis and findings. The purpose of the study was to investigate the effect of lease and purchase decisions on assets management in Kenya. The research was conducted across the members of staff working in investment companies listed in the NSE in job positions namely General Managers, Finance Manager, Accountant, Credit Managers, Marketing Managers, Front Office Managers, Assistant Managers and Sectional Heads. Data was analyzed using frequencies and percentages. Data was in the form of tables, graphs and charts.

4.2 General Information

4.2.1 Response Rate

Out of the 80 issued questionnaires only 71 of the questionnaires were duly filed and completed within the allocated time frame representing an 89% response rate. The other 9 questionnaires which were not filled were as a result of the respondents having busy schedules and not being able to respond adequately to the self-administered questionnaires. Further to this some respondents were quite uncooperative and hence failed to answer the questionnaires. This is represented as shown in the table and figure 4.1 below.

![Response Rate Pie Chart]

Figure 4.1 Response Rate
4.2.2 Level of Education

Figure 4.2 shows that majority of the respondents had at least University Degree; this was represented by majority 32% university degree, 31% Master’s Degree, 24% College/Technical School/Polytechnic and 13% PhD.

![Figure 4.2 Level of Education](image)

4.2.3 Work Experience

The respondents were asked to indicate the years they have been working in the companies. From the respondents, 13% of the respondents indicated they have in the NSE for less than 5 years, 30% of the respondents indicated they have been in the NSE between 6 – 11 years, 20% have been in the NSE between 12 – 17 years, 17% have been in the NSE between 18 – 23 years and 15% have been in the NSE for over 24 years.

![Figure 4.3: Work Experience](image)
4.2.4 Job Position in the Organization

The study sought to establish the respondent’s position at the company and 3% of the respondents were General Managers, 21% accountants, 13% marketing managers, 4% assistant managers, 4% finance managers, 16% Credit managers, 24% front office managers and 16% Heads of Sections.

![Figure 4.4: Job Position in the Organization](image)

4.2.5 Frequency of using Leased services

The researcher sought to know the extent the extent to which leased services such as ICT, Finance Human Resource and Administration are used. This was measured using likert-scale where very great extent -1, moderate extent-2, neutral-3, less extent-4, and not at all-5. Regarding ICT 69% very great extent, 22% moderate extent, 3% neutral, 3% less extent and Not at All 3%. In finance 41% very great extent, 46% moderate extent 7% neutral and 6% less extent. In Human Resource 23% very great extent, 62% moderate extent 7% neutral, 6% less extent and 1% not at all. While in administration 61% very great extent, 30% moderate extent 4% neutral, 4% less extent and 1% not at all. This information is represented in the table 4.1 as shown below.

**Table 4.1: Frequency of using Leased services**

<table>
<thead>
<tr>
<th>Leased services</th>
<th>Very greater extent-1</th>
<th>Moderate extent-2</th>
<th>Neutral-3</th>
<th>Less extent-4</th>
<th>Not at All - 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT</td>
<td>69</td>
<td>22</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Finance</td>
<td>41</td>
<td>46</td>
<td>7</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Human Resource</td>
<td>23</td>
<td>62</td>
<td>7</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Administration</td>
<td>61</td>
<td>30</td>
<td>4</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>
4.2.6 Value of Leased Services

The respondents were required to give their opinion on the value of leased services to an organisation. The finding was that 42% of the respondents were of the opinion that leased services were valuable to the organization, 4% were of the opinion that leased services were not valuable, 52% of the respondents gave no response while 2% were of the opinion that leased services reduce supervision issues.

![Figure 4.5: Value of Leased Services](image)

4.3 Benefits of Leasing

The respondents were asked to respond to a question on their realization of the benefits of leasing of assets as opposed to outright purchase. The response was measured using a 5 point likert scale where 1 very high, 2 high extent, 3 moderate extent, 4 less extent and 5 no effect. The findings, as shown on the table below, was that fixed rates financing is achieved through leasing where 73% very high extent, 20% high extent, 2% moderate extent, 3% less extent, 1% on both no effect and no response. On risk of obsolescence the response was 44% very high extent, 32% high effect, 17% moderate extent, 6% less extent, 0% no effect and 1% no response. It was found out that leasing enhances the ability to transfer the lease to another person before the end of the contract enhances effective control of assets where 14% very high extent, 34% high extent, 40% moderate extent, 10% less extent, 1% on both no effect and no response. On ease of disposition 23% very high extent, 35% high extent, 33% moderate extent, 7% less extent, no effect and no response were represented by 1% each. On flexible payment options 83% very
high extent 12% high extent, 4% moderate extent, 0% on both less extent and no effect and 1% no response. On tax benefits 57% very high extent, 34% high extent, 7% moderate extent, 1% on both less extent and no effect and 0% no response. While on the statement that leasing enhances the preparation of financial statement and ratio 44% very high extent, 37% high extent, 14% moderate extent, 1% on both less extent and no effect and 3% no response.

**Table 4.2 : Benefits of Leasing**

<table>
<thead>
<tr>
<th>Benefits Of Leasing</th>
<th>Very High Extent</th>
<th>High Extent</th>
<th>Moderate Extent</th>
<th>Less Extent</th>
<th>No Effect</th>
<th>No Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed rate financing</td>
<td>73</td>
<td>20</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Risk of Obsolescence is with the lessor</td>
<td>44</td>
<td>32</td>
<td>17</td>
<td>6</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Ability to transfer the lease to another person before the end of the contract</td>
<td>14</td>
<td>34</td>
<td>40</td>
<td>10</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ease of Disposition</td>
<td>23</td>
<td>35</td>
<td>33</td>
<td>7</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Flexible payment options</td>
<td>83</td>
<td>12</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>57</td>
<td>34</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Financial Statement and Ratio Effect</td>
<td>44</td>
<td>37</td>
<td>14</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

The researcher went further to establish how different sectors and different respondents in the different positions in the organizations realised the benefits of leasing and below are the findings:

### 4.3.1 Fixed Rate Financing

Most of the respondents in the different sectors and positions, as shown in the tables below, indicated that fixed rate financing as a benefit of leasing was realised to a great extent except in the construction and allied sector where the respondents indicated that fixed rate financing as a benefit of leasing had no effect and in the agricultural sector where the respondents were indifferent. The heads of sections and some marketing managers indicated that fixed rate financing had less or no effect.
4.3.2 Risk of Obsolescence is with the Lessor

Most of the respondents in the manufacturing & allied, investment, banking, automobile & accessories, telecommunication & technology and commercial & services sectors
indicated that this benefit is realised to a high extent. For the construction & allied and agricultural sectors the respondents indicated that the benefit had less effect. Most of the respondents in the different positions indicated that this benefit is realised to a high extent. Most of the front office managers and some heads of sections indicated that risk of obsolescence as a benefit of leasing had less effect. This information is illustrated in the figure and table below.

**Figure 4.7 : Risk of Obsolescence is with the Lessor by Sector**

**Figure 4.8: Risk of Obsolescence is with the Lessor by Position**

### 4.3.3 Ability to Transfer the Lease to another Person before the End of Contract

As shown in the tables below, most of the respondents indicated that this benefit is realised to a high extent. For the agriculture and construction & allied sectors the
respondents indicated that the benefit had less or no effect. Most of the respondents in the different positions indicated that this benefit is realised to a moderate extent however most of the general managers, financial managers and some marketing managers and heads of sections felt that the benefit was realised to a high extent.

Figure 4.9 Ability to Transfer the Lease to another Person before the End of Contract by Sector

Table 4.4: Ability to transfer the lease to another person before the end of contract by position

<table>
<thead>
<tr>
<th>Job position</th>
<th>General manager</th>
<th>Accountant</th>
<th>Marketing Manager</th>
<th>Assistant manager</th>
<th>Financial manager</th>
<th>Credit manager</th>
<th>Front office manager</th>
<th>Head of section</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very high extent</td>
<td>High extent</td>
<td>Moderate extent</td>
<td>Less extent</td>
<td>No effect</td>
<td>No response</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>24</td>
<td>28</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>71</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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4.3.4 Ease of Disposition

Most of the respondents, as shown in the tables below, in the different sectors and positions indicated that this benefit is realised to a high extent except for the agriculture and construction & allied sectors where the respondents indicated that the benefit had less or no effect.

![Figure 4.10: Ease of Disposition by Sector](image_url)

![Figure 4.11: Ease of Disposition by Position](image_url)
4.3.5 Flexible Payment Options

Most of the respondents in the different sectors and positions indicated that flexible payment option as a benefit of leasing was realised to a great extent except in the construction and allied sector where the respondents indicated that the benefit had less or no effect. The heads of sections indicated that it had less or no effect.

![Figure 4.12: Flexible Payment Options by Sector](image)

![Figure 4.13: Flexible Payment Options by Position](image)
4.3.6 Tax Benefits

As shown in the tables below, most of the respondents in the different sectors and positions indicated that this benefit is realised to a high extent except for the construction & allied sector where the respondents indicated that the benefit had less or no effect and agricultural sector where it was moderately realised.

Figure 4.14: Tax Benefits by Sector

Figure 4.15: Tax Benefits By Position
4.3.7 Financial Statement and Ratio Effect

Most of the respondents in the different sectors and positions indicated that this benefit of leasing was realised to a great extent except in the construction and allied sector where the respondents indicated that the benefit had no effect. The heads of sections indicated that it had less or no effect.

![Financial Statement and Ratio Effect by Sector](image1)

**Figure 4.16 : Financial Statement and Ratio Effect by Sector**

![Financial Statement and Ratio Effect by Position](image2)

**Figure 4.17 : Financial Statement and Ratio Effect by Position**
4.3.8 Other Benefits

Other leasing benefits listed by the respondents included: in leasing no upfront/advance payment required (30%), leasing is not affected by inflation (24%) and leasing is less capital-intensive (11%).

![Pie Chart: Leasing Benefits](image)

Figure 4.18: Other Benefits of Leasing

4.4 Leasing Considerations

5 point Likert scale was used to measure the statement from respondents on leasing consideration where 1 very high, 2 high extent, 3 moderate extent, 4 less extent and 5 no effect. The findings, as shown in the table below, was that characteristic of the facility required influence leasing decisions 77% very high extent, 16% high extent, 3% moderate extent, 0% on both less extent and no effect and 4% no response. On dynamics of the Capital Market 45% high extent, 39% high extent, 10% moderate extent, 0% less extent, 3% no effect and 3% no response. Regarding Financial Position of the Company 78% very extent, 17% high extent, 4% moderate extent, 0% on both less extent and no effect and 1% no response. The finding on whether hidden value of latent asset influence leasing consideration was 34% very high extent, 39% high extent, 20% moderate extent, 1% less extent, 3% no effect and 3% no response. While whether market imperfections influence leasing consideration 39% very high extent, high extent 40% ,moderate extent 14%, less extent 3%, no effect 1% and 4% no response.
Table 4.5: Leasing Considerations

<table>
<thead>
<tr>
<th>Statements</th>
<th>Very high extent</th>
<th>High extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
<th>No effect</th>
<th>No Response</th>
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<tr>
<td>Dynamics of the Capital Market</td>
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<td>3</td>
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<tr>
<td>Financial Position of the Company</td>
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<td>17</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Hidden value of latent asset.</td>
<td>34</td>
<td>39</td>
<td>20</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Market imperfections</td>
<td>39</td>
<td>40</td>
<td>14</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

The researcher went further to establish how different sectors and different respondents in the different positions in the organizations realised the benefits of leasing and below is the findings:

4.4.1 Characteristics of the Facility

Most of the respondents in the different sectors and positions indicated that this consideration of leasing was considered to a great extent except in the construction and allied sector where the respondents indicated that the consideration was less considered in making leasing decisions.

Figure 4.19: Characteristics of the Facility by Sector
4.4.2 Dynamics of the Capital Market

As shown in the tables below, most of the respondents indicated that this consideration was considered to a high extent. For the agriculture and construction & allied sectors the respondents indicated that it had less or no effect. Most of the respondents in the different positions indicated that this consideration was considered to a high extent however some heads of sections felt that it was less considered.
4.4.3 Financial Position of the Company

Most of the respondents in the different sectors and positions indicated that this consideration of leasing was considered to a great extent except in the construction and allied sector where the respondents indicated that the consideration was moderately considered.
Figure 4.24: Financial Position of the Company by Position

4.4.4 Hidden Value of Latent Asset

Most of the different respondents in the different sectors and positions indicated that this consideration was considered to a great extent. The respondents in the construction and allied sector and the agricultural sector considered it to a less extent.

Figure 4.25: Hidden Value of Latent Asset by Sector
4.4.5 Market Imperfections

As shown in the tables below, most of the respondents in the different sectors and positions indicated that this consideration was considered to a high extent. For the agriculture and construction & allied sectors the respondents indicated that it was considered to a less extent.
4.4.6 Other Considerations

Other leasing considerations listed by the respondents included: terms of the lease contract (41%), monthly budget for the leased asset (18%) and impact of the lease on working capital (1%).

4.5 Challenges in Lease Financing

5 point Likert scale was used to measure the statement from respondents on consideration on the following factors on challenges in leasing where 1 very high, 2 high extent, 3 moderate extent, 4 less extent and 5 no effect. The findings, as shown on the table below,
was that financial Challenges influence leading consideration 75% very high extent, 11% high extent, 7% moderate extent, 4% less extent, 0% no effect and 3% no response. On whether Changes in Leasing Accounting Standards influence leasing the response was 51% very high extent, 31% high effect, 14% moderate effect, 3% less extent, 0% no effect and 1% no response. It was found out that Market Dynamics influence leasing decisions where 62% very high extent, 27% high extent, 7% moderate extent, 3% less extent, 0% no effect and 1% no response. On whether crowd funding and property rights influence leasing decision the response was 34% very high extent 31% high extent 23% moderate extent, 6% less extent, 2% no effect and 4% no response. On Limited economic growth as a determinant to leasing decisions the response was 23% very high extent, 41% high extent, 23% moderate extent, 4% less extent, 2% no effect and 7% no response.

Table 4.6 :Challenges in Lease Financing

<table>
<thead>
<tr>
<th>Statements</th>
<th>Very high extent</th>
<th>High extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
<th>No effect</th>
<th>No Response</th>
</tr>
</thead>
<tbody>
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<td>Financial Challenges</td>
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<td>11</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>3</td>
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<tr>
<td>Changes in Leasing Accounting</td>
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<td>31</td>
<td>14</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Dynamics</td>
<td>62</td>
<td>27</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Crowdfunding and property rights</td>
<td>34</td>
<td>31</td>
<td>23</td>
<td>6</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Limited economic growth</td>
<td>23</td>
<td>41</td>
<td>23</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
</tbody>
</table>

The researcher went further to establish how different sectors and different respondents in the different positions in the organizations realised the benefits of leasing and below are the findings:

4.5.1 Financial Challenges

Most of the respondents in the different sectors and positions indicated that this challenge of leasing was felt to a great extent except in the construction and allied sector where the respondents indicated that it had no effect.
4.5.2 Changes in Leasing Accounting Standards

Most of the respondents in the different sectors and positions indicated that this challenge of leasing was experienced to a great extent except in the construction and allied, manufacturing and allied and agricultural sectors where the respondents indicated that it had less or no effect.
As shown in the tables below, most of the respondents in the different sectors and positions indicated that this challenge of leasing was experienced to a high extent. For the agriculture and construction & allied sectors the respondents indicated that it had less or no effect.
Most of the respondents in the different sectors and positions indicated that this challenge of leasing was experienced to a great extent except in the construction and allied, manufacturing and allied, automobile and accessories, and agricultural sectors where the respondents indicated that it had less or no effect.
Most of the respondents in the different sectors and positions indicated that this challenge of leasing was felt to a great extent except in the agriculture, manufacturing and allied, and construction and allied sectors where the respondents indicated that the challenge had less or no effect.
Figure 4.38: Limited Economic growth by Sector

Figure 4.39: Limited Economic growth by Position

4.5.6 Other Challenges

Other challenges of leasing listed by the respondents included: long term cost of the leased equipment (25%) and complicated terms of the lease contract (17%).
Figure 4.40: Other Challenges of Leasing

4.6 Chapter Summary

The study analysed 71 out of 80 questionnaires which were the major source of primary data used in this study, hence data editing was applied as the first step of qualitative analysis. The data obtained from the questionnaires was critically examined to detect errors and the questions that were not answered properly, all the mistakes were corrected and poorly answered questionnaires were exempted from analysis process. This increased accuracy, consistency and reliability of the gathered facts. Data completeness and uniformity was maintained and this facilitated application of other data analysis techniques like coding, data organization, data classification and tabulation. Coding was the second step of qualitative analysis; this involved assigning the collected data in the questionnaires numerical values where the response rate of each respondent’s category was determined, the respective response rates in each category were added together to present the total response rate, the percentage of each respective category response rate was calculated out of the total response rate which was 71 respondents. Coding ensured efficient analysis since it reduced the gathered data into small number of classes which contained the most important information. The coded data provided systematic information that easily passed a message to the reader.

Data classification was applied and this involved grouping of data into two classes, the response rates from each respondent category were grouped in each class. Tables were used to present the analysed data and charts were used to give a visual presentation of the study findings. The research applied qualitative data analysis methodology, where the
qualitative analysis, regardless of the specific approach, involves; comprehending the phenomenon under study, synthesizing a portrait of the phenomenon that accounts for relations and linkages within its aspects, theorizing about how and why these relations appear as they do, and re contextualizing, or putting the new knowledge about phenomena and relations back into the context of how others have articulated the evolving knowledge was applied. This contributed to more understanding of the presented data and answered the research questions.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, conclusions and recommendations based on the findings. The aim of the study was to explore the effect of lease and purchase decisions on assets management in Kenya: a case study of selected investment companies. The chapter is organized as follows: Section 5.2 presents a summary of the findings; Section 5.3 presents the discussions; Section 5.4 presents the conclusions; section 5.5 presents the recommendations for policy and recommendations for further research.

5.2 Summary

The purpose of the study was to establish the effect of lease and purchase decisions on assets management in Kenya. Three research questions were develop to ascertain effect of lease and purchase decisions on assets management in Kenya, these questions were; What are the benefits of leasing assets? What are the main considerations in making leasing decisions? And what are the challenges faced in making leasing decisions? The research adopted a descriptive research design. This methodology was undertaken in order to ascertain and describe the characteristics of the variables of interest in the study which were operating costs, increased market share and services efficiency. Since the population involved individuals of different cohorts, stratified random sampling was employed to select 71 representative respondents from the categories of General Managers, Finance Manager, Accountant, Credit Managers, Marketing Managers, Front Office Managers, Assistant Managers and Sectional Heads. The researcher used questionnaires as a tool for collecting data for this study. The questionnaire contained both open and closed ended items for collection of primary data.

The study found out that leasing services were very valuable to the organization and they were greatly used in areas of ICT, Finance, Human Resource and Administration whereby in ICT 69% was to a very great extent and 22% to a moderate extent; in finance 41% very great extent and 46% moderate extent; in Human Resource 23% very great extent and 62% moderate extent; while in administration 61% very great extent and 30% moderate
extent. On the benefits of leasing, most of the respondents indicated that the benefits listed were realised to a great extent in the different sectors whereby on fixed rate financing the response was 73% very high extent and 20% high extent; on risk of obsolescence 44% very high extent and 32% high effect; on the ability to transfer the lease to another person before the end of the contract 14% very high extent and 34% high extent; on ease of disposition 23% very high extent and 35% high extent; on flexible payment options 83% very high extent and 12% high extent; on tax benefits 57% very high extent and 34% high extent; while on financial statement and ratio effect 44% very high extent and 37% high extent. The construction and allied and the agriculture sectors the respondents indicated that the benefits were less felt in those sectors. Other additional benefits included no upfront payment required, not affected by inflation and its less capital intensive.

On leasing considerations, most of the respondents indicated that the considerations given were considered to a great extent in the different sectors except in the construction and allied and the agriculture sectors. On characteristic of the facility required 77% of the respondents indicated to a very high extent and 16% high extent; on dynamics of the Capital Market 45% very high extent and 39% high extent; on Financial Position of the Company 78% very high extent and 17% high extent; on hidden value of latent asset 34% very high extent and 39% high extent; while on market imperfections 39% very high extent and 40% high extent. Other considerations included terms of the lease, monthly budget for the leased asset and impact on the working capital.

On the challenges of leasing, most of the respondents indicated that the challenges given were felt to a great extent in the different sectors except in the construction and allied, manufacturing and allied and the agriculture sectors. The response was: on Financial Challenges 75% very high extent and 11% high extent; on Changes in Leasing Accounting Standards 51% very high extent and 31% high effect; on Market Dynamics 62% very high extent and 27% high extent; on crowd funding and property rights 34% very high extent and 31% high extent; while on Limited economic growth 23% very high extent and 41% high extent. Other challenges given include long term cost of the leased asset and complicated contract terms.
5.3 Discussions

5.3.1 Benefits of Leasing

Seven indicators were used to measure the benefits of leasing on assets management in investment companies. The indicators used were fixed rate financing, risk of Obsolescence is with the lessor, ability to transfer the lease to another person before the end of the contract, ease of disposition, flexible payment options, tax benefits and financial statement and ratio effect.

On Fixed Rate Financing, most of the respondents in the different sectors indicated that it was realised to a great extent except in the construction and allied and agricultural sectors. This is in agreement with Sharpe and Nguyen (2013), that firms engaged in leasing recognizing that each organization is faced with different circumstances and offers options and alternatives to suit virtually every requirement. On risk of obsolescence, most of the respondents in the manufacturing & allied, investment, banking, automobile & accessories, telecommunication & technology and commercial & services sectors indicated that this benefit is realised to a high extent. For the construction & allied and agricultural sectors the respondents indicated that the benefit had less effect. This agrees with Glautier & Underdown (2011) that leasing allows the lessee to use the equipment that is vital for his or her success, without having to own a depreciating asset or drain more of operating budget than is already necessary. It costs less initially and per month than buying, and has tax benefits that buying doesn't. When the term is over, the lessee can walk away from the equipment or buy it with the advantage of having used it first to assure that it meets his/her needs (Glautier & Underdown, 2011).

On the ability to transfer to another person, Otieno (2012) noted an increasingly important aspect of leasing is the ability to transfer the lease to another person before the end of the contract. From the research, most of the respondents indicated that this benefit is realised to a high extent. On ease of disposition, most of the respondents indicated that this benefit is realised to a high extent. This is in agreement with Merton et al (2014) who says that with leased equipment, the owner or vendor assumes the responsibility of disposing of the equipment. In property firms case this frees up such things as “bone yards” - areas where outdated equipment just sits and wastes away. Also, Golan (2008) argues that, “indeed,
ease of disposition is the only element of flexibility where leasing can be superior to ownership”.

On Flexible Payment Options, most of the respondents indicated that it was realised to a great extent as indicated by Mohammad & Shamsi (2008) that unlike full up-front purchases where large expenditures in particular fiscal years create spikes in spending, leases are considered operating expenses and therefore spread costs over time. On Tax Benefits, Slotty (2009) asserts that for investor claimed organizations, everything of every lease instalment is a tax deductible cost for the lessee given that the IRS concurs that the agreement is a bona fide lease and thus most respondents indicated that this benefit was greatly realised. On Financial Statement and Ratio Effect, most the respondents indicated that this benefit was realised to a great extent thus in agreement with Akerlof (2011) that leasing is regularly cancelled financial record financing. From the findings, the construction and allied and the agriculture sectors the respondents indicated that the benefits were less felt in those sectors. Other benefits of leasing given by the respondents include no upfront payment required, not affected by inflation and its less capital intensive. A research conducted by Leaseurope (2003) indicated that a lease program also implements a structured long-term budget and plan for the replacement of equipment, ensuring that the company remains technologically current and one step ahead of competitors.

5.3.2 Leasing Considerations

Five indicators were used to measure the considerations leasing on assets management in investment companies. The indicators used were characteristics of the facility, dynamics of the capital market, financial position of the company, hidden value of the latent asset and market imperfections. On characteristics of the facility most respondents indicated in that this consideration was greatly considered. According to (Gale & Case, 2013), the more specialized or customized the required property, the more definite is the indication for ownership and vice versa. On dynamics of the capital market, most respondents were in agreement that the factor is greatly considered in making leasing decisions. This is in line with Nappi-Choulet’s (2002) argument that the move to outsource large property portfolio goes hand in hand with a more developed property market. Additionally, if market risk affects residual value of property which forms greater percentage of corporate assets, the tendency is to lease (Fisher, 2014).
On financial position of the company, most of the respondents indicated that the factor was greatly considered in leasing decision thus agreeing with O’Mara (2011) that companies which have a well-defined policy of maintaining adequate liquidity in terms of un-utilised bank lines and or access to other sources of funding and do not have any problems with meeting/toping up the minimum liquidity deposit requirements of the Stock Exchange would be viewed favourably. Hidden Value of the Latent asset was the next factor and Brennan (1990) suggests that companies whose stock prices do not fully reflect the value of their real estate holdings should sell and leaseback. In other words the latency of the asset value induces firms to convert them into cash when they are positive and alternatively defer realization when they are negative. Sale and leaseback announcement should therefore unleash the hidden value of the latent asset resulting in positive valuation (Bierman, 1999). Thus most respondents indicated that this consideration was greatly considered in leasing decisions.

On Market Imperfection, most respondents indicated that the factor was greatly considered in leasing decision. Sharpe & Nguyen (2013) found that low-rated firm with poor estimated credit quality (and resulting high costs of external financing) show higher volumes of leasing than highly rated companies since they can reduce their financing costs by means of leasing. Consequently Yan (2012) examined the impact of asymmetric information, agency costs and taxes on the substitutability of leases and debt and concluded that they are more likely to be used as substitutes by firms facing more severe asymmetric information and agency problems. From the findings, the construction and allied and the agriculture sectors the respondents indicated that they less considered the factors of leasing. Other considerations given by the respondents include terms of the lease, monthly budget for the leased asset and impact on the working capital. These findings agree with the finding by Ghyoot (2013) that a facility that is fully occupied supports ownership whiles leasing is preferred when less space is required than optimal site development. Moreover the timing of the need of the facility required is of relevance. If space is needed immediately, it may be available only through leasing or buying an existing facility.

5.3.3 Challenges in Lease Financing

Five indicators were used to measure the challenges of leasing on assets management in investment companies. The indicators used were financial challenges, changes in leasing
accounting standards, market dynamics, crowdfunding and property rights and limited economic growth. On Financial Challenges most respondents indicated that this challenge was felt to a great extent. Louko (2004) notes that bank owned lessors, except some with temporary problems, generally have deep pockets, plus lending money, in one form or another, is their core business hence Myers (2011) argues that lease payments are fixed obligation like other loans and that they displace debt and reduce debt capacity.

On Changes in Leasing Accounting Standards, most respondents felt that the challenge was greatly felt as Tarus (2013) notes that the ramifications of the changes to the leasing accounting standard are likely to have far reaching adverse impacts not only on the leasing industry, but on businesses generally. On Market Dynamics, most respondents indicated that the challenge was greatly felt and as Adedeji & Stapleton (2011) notes that most corporations prefer to outsource their real estate holdings to professionals who would better handle market and property related risks. Another myth identified in relation to market balance is that ‘the economics of the own/lease options are usually very different’. This is true to some extend in the short run however in the long run leasing and ownership market tend to be in financial equilibrium (De Laurentis & Mattei, 2011).

Crowdfunding and Property rights was also identified by the respondents as a great challenge affecting leasing decision. Okoth (2012) notes that in many countries understanding of property rights often remains limited to property titles, without deeper appreciation of the underlying and interconnected institutions that make property rights meaningful and allow property markets to function. Limited Economic Growth on the other hand was also seem is a great challenge in the different sectors as indicated by the respondents. As De Laurentis & Mattei (2011) states, leasing is more economical for short term occupation but ownership becomes more beneficial the longer a user remains in occupation. Subsequently this eventually gets to a break-even point where the two alternatives have the same cost and beyond this point favour ownership. This is because leasing exposes the user to market risk whiles ownership acts as inflationary hedge to recoup the amount invested.

The construction and allied, manufacturing and allied and the agriculture sectors, the above challenges were experienced to a less extent. Other challenges experienced in leasing decisions as given by the respondents include long term cost of the leased asset and complicated contract terms. These finding agree with the finding by (Aguko 2010)
that a facility that is fully occupied supports ownership while leasing is preferred when less space is required than optimal site development. Moreover the timing of the need of the facility required is of relevance. If space is needed immediately, it may be available only through leasing or buying an existing facility.

5.4 Conclusions

5.4.1 Benefits of Leasing

Most of the respondents indicated that the benefits listed, that is fixed rate financing, risk of Obsolescence is with the lessor, ability to transfer the lease to another person before the end of the contract, ease of disposition, flexible payment options, tax benefits and financial statement and ratio effect, were realised to a great extent in the different sectors. Other additional benefits included no upfront payment required, not affected by inflation and its less capital intensive. The construction and allied and the agriculture sectors the respondents indicated that the benefits were less felt in those sectors and this could have been caused by lack of understanding on the part of the respondents or that leasing is not much used in those sectors.

5.4.2 Leasing Considerations

Most of the respondents indicated that the leasing considerations listed, that is characteristics of the facility required, dynamics of the capital markets, financial position of the company, hidden value of latent asset and market imperfections, were considered to a great extent in the different sectors. Other additional considerations included terms of the lease, monthly budget for the leased asset and impact on the working capital. The construction and allied and the agriculture sectors the respondents indicated that the benefits were less felt in those sectors and this could have been caused by lack of understanding on the part of the respondents or that leasing is not much used in those sectors.

5.4.3 Challenges in Lease Financing

Most of the respondents indicated that the challenges of leasing listed, that is financial challenges, changes in leasing accounting standards, market dynamics, crowdfunding and property rights and limited economic growth, were felt to a great extent in the different sectors. Other additional challenges given include long term cost of the leased asset and
complicated contract terms. The construction and allied, manufacturing and allied and agriculture sectors the respondents indicated that the benefits were less felt in those sectors and this could have been caused by lack of understanding on the part of the respondents or that leasing is not much used in those sectors.

5.5 Recommendations

5.5.1 Suggestions for Improvement

5.5.1.1 Benefits of Leasing

To suggest the way forward for investment firms, it is very important that effort would be made to improve on the efficiency of the capital and property market by especially making information on leasing financing readily available. It is also important for investment firms who wish to lease to consider the timings of the property cycle since the optimum benefit is attainable during the boom cycle where conditions are favourably. These notwithstanding investment companies in financial distress have relied on sale and leaseback as the finance of the last resort to bounce back into business.

5.5.1.2 Leasing Considerations

From the foregoing, the own versus lease decision in corporate real estate is not a simple one, especially when trying to draw exact line whether to lease/own. This is because investment companies can be in totally different situation when considering their real estate ownership strategies, making it extremely difficult to have single solution for all corporations rather than providing basic guidelines to be followed. The question of whether to own or lease has several perspective and the answers are dependent on factors such as company’s profitability, growth prospects, future needs and uses, timing of the divestment and property market conditions. Therefore it is important for investment companies to act proactively with regards to their real estate requirements and needs.

5.5.1.3 Challenges of Leasing

There is an increasing need to promote technological and institutional innovation as a means to expand financial system access and usage, including addressing infrastructure weaknesses and empowering business enterprises by developing financial literacy and financial capability programs to bring all people on board and all to participate in
economic development of a country, perhaps agent banking will offer a solution to slow pace of individuals enterprise development especially from the rural areas.

5.5.2 Suggestions for further research

There is need for further research in the area of asset management and finance especially in developing countries. It would be interesting to further research into why leasing in a form of sale and leasebacks have not achieved widespread use in Kenya. Moreover, an empirical research regarding the long term effects of sale and leasebacks and how corporations have invested proceeds, especially in the US and Europe would be extremely interesting and worth undertaking.
REFERENCES


80


APPENDICES

APPENDIX I A: COVER LETTER

DATE: November 2, 2015

Cell: 0725507270

Email: mutunemwesh@yahoo.com

P.O. Box 62157, 00100 Nairobi

Dear Respondent,

RE: RESEARCH QUESTIONNAIRE

I am a graduate student at the United States International University – Africa pursuing a Masters of Business Administration program. I am currently conducting a research on “The Effect of Lease and Purchase Decisions On Assets Management In Kenya Case Study of Selected Investment Companies.” The results of the survey will be instrumental in knowing the principle factors that are vital when choosing when to use lease financing as a source of finance and how the decision affects organizations.

This is an academic research and confidentiality will be strictly adhered to. Kindly spare some minutes to fill the questionnaire attached.

Yours Sincerely

Mutune Mary
APPENDIX I B: QUESTIONNAIRE

You are requested to provide answers to these questions with honesty. Responses to these questions will be treated with confidentiality therefore your name is not required anywhere. Please tick (✓) where appropriate or fill in the required information on the space provided.

PART A: GENERAL INFORMATION

Kindly answer all the questions by ticking (✓) in the boxes.

1. What is your highest level of education:
   - College/Technical School/Polytechnic
   - University Degree
   - Masters
   - PhD

2. How long have you worked for this organization?
   - Less than 5 years
   - 6-11 years
   - 12-17 years
   - 18-23 years
   - Over 24 years

3. What is your job position in the organization
   - General Manager
   - Financial Manager
   - Accountant
   - Credit Manager
   - Marketing Manager
   - Front Office Manager
   - Assistant Manager
   - Head of Section

4. To what extent do you make use of leased services in the following areas?

<table>
<thead>
<tr>
<th>Leased services</th>
<th>very greater extent-1</th>
<th>Moderate extent-2</th>
<th>Neutral-3</th>
<th>Less extent-4</th>
<th>Not at All -5</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td></td>
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<tr>
<td>Human Resource</td>
<td></td>
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</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. Please give your opinion on the value of leased services to an organization?

PART B: BENEFITS OF LEASING

6. a) To what extent do you realize the following benefits of leasing of assets as opposed to outright purchase? (Tick appropriately).

<table>
<thead>
<tr>
<th>Benefits of leasing</th>
<th>Very high extent</th>
<th>High extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
<th>No effect</th>
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<tbody>
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<td>Fixed rate financing</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk of Obsolescence is with the lessor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to transfer the lease to another person before the end of the contract</td>
<td></td>
<td></td>
<td></td>
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</tr>
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<td>Ease of Disposition</td>
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<td>Flexible Payment Options</td>
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<td>Tax Benefits</td>
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<td>Financial Statement and Ratio Effect</td>
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</table>

b) Please state any other benefits not listed above

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85
PART C: LEASING CONSIDERATIONS

7. a) To what extent do you consider the following factors in leasing decisions?  
    (Tick appropriately).

<table>
<thead>
<tr>
<th>Statements on leasing consideration</th>
<th>Very high extent</th>
<th>High extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
<th>No effect</th>
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<tr>
<td>Characteristics of the Facility Required</td>
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<td>Dynamics of the Capital Market</td>
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<td>Financial Position of the Company</td>
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<tr>
<td>Hidden value of latent asset.</td>
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<tr>
<td>Market imperfections</td>
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</table>

b) Please state any other considerations not listed above

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PART D: CHALLENGES IN LEASE FINANCING

8. a) To what extent do you encounter the following challenges in leasing of assets as opposed to outright purchase? *(Tick appropriately).*

<table>
<thead>
<tr>
<th>Statements on leasing challenges</th>
<th>Very high extent</th>
<th>High extent</th>
<th>Moderate extent</th>
<th>Less extent</th>
<th>No effect</th>
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<td>Changes in Leasing Accounting Standards</td>
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<td>Market Dynamics</td>
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<td>Crowdfunding and property rights</td>
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<tr>
<td>Limited economic growth</td>
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</tbody>
</table>

b) Please state any other challenges not listed above

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Thank you for your time and contribution.
APPENDIX II: SAMPLE DISTRIBUTION

LIST OF COMPANIES AT THE NAIROBI STOCK EXCHANGE MARKET

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<tr>
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<tr>
<td>3</td>
<td>Rea Vipingo</td>
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<tr>
<td>4</td>
<td>Sasini</td>
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<td>Express</td>
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<td>Safaricom</td>
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<td>Car and General</td>
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<td>Athi River Mining</td>
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</table>

SOURCE: (NSE, 2015)