MINHAJ International Journal of Economics and Organization Sciences

Volume 5, No.2 /Jul-Dec 2025

The Impact of Operating Lease Practices on the Financial Performance of Nigerian Conglomerates

Dr. Raimi Adoke Hameed[1], Dr. Abba Umar Waziri[2]

Abstract

The financial performance of conglomerate firms in Nigeria has raised significant concerns among stakeholders. There may be several factors that impede such performance. The purpose of this study is to investigate how operating leases and the financial performance of five conglomerate companies listed on the Nigerian Exchange Group as of December 31, 2024, relate to one another. The timeframe encompassed in this study spans a decade, specifically from 2015 to 2024. Financial performance was measured by dividing profit after taxes by total assets. The following metrics are used to measure operating leasing: assets tangibility, are measured by dividing fixed assets by total assets, lease income, net sales to fixed assets, and total lease to total revenue. The ex-post facto research design was employed in this investigation. The following results were achieved during the data analysis process based on descriptive statistics, Hausman test analysis, random effect, fixed effect, and regression analysis. Following hypotheses testing, it was discovered that lease income and financial success were strongly correlated. In the meantime, there is a negative correlation between financial success and other variables, such as overall assets and asset tangibility. In order to guarantee higher profits, the report advises managers of big multinational companies to make efficient use of the company's resources by allocating shareholder funds to lucrative endeavors.

Keywords: Financial performance, Assets tangibility, Total assets, Lease income

1.1 Introduction

The ability of the company to optimize the wealth of its owners is indicated by its financial performance. Because they anticipate a return on their investment, it is a sign that potential investors will find the company appealing to invest in. Financial performance, in particular, is a gauge of organizational financial health that has represented the value of the company overall, allowing for the discovery of

[1] Assistant Professor, Department of Business Administration, Federal University, Gusau, Nigeria. Email: rahameed@fugusau.edu.ng

[2] Assistant Professor, Department of Business Administration, University of Maiduguri. Email: abbaumarwaziri@unimaid.edu.ng

https://doi.org/10.58932/MULE0049

economic resources that are used effectively and efficiently. Therefore, financial performance is regarded as a crucial and essential mechanism for the industrial sector's survival in every economy worldwide. On the other hand, subpar performance in Nigeria's listed conglomerate companies can result in financial instability, which can negatively impact the company's competitiveness, the standard of living, economic instability, and the returns on investment for the relevant stakeholders (Abdulkarim et al., 2020). Therefore, managers must balance the interests of all groups in order to maximize the interests of all stakeholders and agencies. This will reduce the potential negative effects and consequences of divergent reactions on the organization's financial results (Demmou et al., 2019). In particular, FP in Nigeria's listed conglomerate companies continues to be a highly controversial topic among scholars, industry professionals, shareholders, and decision-makers. Nonetheless, business has contributed significantly to every economy. Because of their strategic significance in all economies and the global society, conglomerate enterprises are among the most significant industries in the world.

Furthermore, from 14.5% in 2019 to 4.3% in 2020, the conglomerate firms' operational leasing position grew less rapidly (ELAN, 2023). This is because during the pandemic-related lockdown crisis, the majority of industrial commodities that are crucial to global leasing were most impacted. Economic activities have been negatively impacted by this, including slow business operations, delayed rental payments, higher costs for obtaining the assets that will be leased to lessees, and more. The enterprises observed a loss of 28.6 percent to 9.55 percent between 2021 and 2022, further suggesting that the repercussions of such a decline in 2020 have major consequences. However, according to the World Leasing Yearbook (2023) data, Nigeria's financial leasing company has grown from 9.55 percent to 18.44 percent, placing it in 41st place among the top 50 leasing nations. The conglomerate firms' (CF) financial performance is still problematic despite the little improvement. The IGs' financial performance is significantly impacted by this. According to these figures, Nigerian IGs' financial performance is appallingly bad, which could harm the nation's economic development and progress. In light of this, this study looks into the causes of the underwhelming performance of Nigerian lease conglomerate companies in an effort to improve the literature and provide a remedy.

Given the aforementioned, it is imperative to investigate the impact of operating leasing methods on the financial performance of listed conglomerate firms (LIG) in Nigeria. This is done in an effort to determine how much these elements affect or enhance LIG's performance. This is due to the fact that economic growth

depends on the health and strength of the conglomerate business sector (Luqman & Oluwaseun, 2020). Furthermore, Kombo et al., (2016) argued that the conglomerates' competitive position in the economy is demonstrated by their performance, which in turn determines the health of the enterprises. Therefore, investigating the effects of the aforementioned elements on the financial performance of listed lease conglomerate firms in Nigeria is the aim of this study.

2.1 Conceptual Definition of the Study

In this study, the concepts that are relevant are operationalized and defined as expected. Therefore, such concepts are as follows, financial performance, asset tangibility, total assets, lease income.

2.1.1 Financial Performance

A company's ability to use its resources effectively and efficiently to achieve its stated goals is sometimes referred to as performance (Dahmash, 2015). It focuses on the overall performance of all divisions and business units within a firm. According to Danaei and Abdi (2015), it also focuses on how businesses use their limited resources to produce profit in a sustainable way. They added that an industry's profitability serves as its primary safeguard against losses since it enhances future profitability through retained earnings and fortifies the capital base. To bolster this context, Hiran (2016) defines performance as the degree to which an organization meets its business objectives or the desired result. In this study, financial success is determined by dividing earnings before taxes by the total assets of the company at the time of the study.

2.2 Operating Lease

Operating lease is conceptualized as a kind of service in which the lessor incurs maintenance and other related costs that are incorporated into the lease payments to be received from the lessee. It is a contract where the lessor retains the risks and benefits of ownership according to Maniagi and Mwalati (2015), for a period of time that is significantly less than the asset's economic life. It actually only takes a little while. According to Mary and Charles (2017), it is a contract in which the lessor bears the risks and rewards of ownership for a period of time that is significantly less than the asset's economic life.

2.2.1 Asset Tangibility

The degree to which businesses use non-transportable assets in their operations is known as asset tangibility. According to Olatunji and Adegbite (2014), asset tangibility specifically refers to the quantity of property, plant, and equipment less the total amount of depreciation. Therefore, it is more reasonable to believe that industrial goods leasing views fixed assets as more permanent assets that are meant

to be used in the firm rather than sold. For instance, a new business may need fixed assets like land, buildings, machinery, and equipment (Okwo et al., 2012). Tangible assets include things like real estate, buildings, machinery, furniture, software, and automobiles. Accordingly, net sales to fixed assets are used to measure the tangibility of assets for the purposes of this study (Sunjoko & Arilyn, 2016).

2.2.2 Total Assets

The term "total assets" describes how much of the company's total assets are used to finance its net sales. Depending on the study's focus, different scholars have defined total assets using a variety of factors. Scholars have differing opinions about how total assets affect a company's performance, according to assets theory. According to some schools of thinking, total assets are a sum of the many asset components, which include cash on hand and in the bank, current assets, physical fixed assets, financial fixed assets, and current investments (Deitiana & Habibuw, 2015). In other contexts, total assets refer to how much of the company's total assets are financed by net sales (Maniagi & Mwalati, 2015). Total assets are calculated by dividing net sales for the period by total assets.

2.2.3 Lease Income

Leasing income is the total amount of money that the lessors receive as a result of a leasing agreement. Alkhazaleh et al., (2018) state that it is determined by dividing total revenue by total leasing. An income lease, as the name implies, is a term that describes the lease as a whole in connection with the company's earnings. According to Stanton and Wallace (2009), from the organizational point of view, instances of lease income are the arrangement whereby the organization realizes a profit from the sale of underlying assets. This statement strengthened the case. Stanton and Wallace (2009) suggested that since lease income is a word for a certain type of provision in a lease agreement that is commonly used in commercial real estate, it is also known as variable lease. It is computed as the ratio of total leasing to total income, according Alkhazaleh et al. (2018).

2.3 Formulation of Hypotheses and Empirical Research

The empirical literature on the variables being studied is reviewed in this section. The factors are asset tangibility, total assets, and leasing revenue. Thus, the following literature is reviewed in the study.

2.3.1 Asset Tangibility and Financial Performance

Bahaa and Bahaa (2021) carried out an empirical study on the asset tangibility and financial performance of all Islamic banks in Palestine from 2010 to 2019 in order to offer a more comprehensive literature support. They employed the census sampling strategy in their investigation. The descriptive analytical method

was used to analyze the data. Since secondary data was the most appropriate for their investigation, it was used. It was demonstrated that the independent variable of financial lease was measured using fixed assets, while the dependent variable of financial performance was measured using return on equity. Return on equity and fixed assets were found to be strongly positively correlated by the study.

In a separate context, Olatunji and Adegbite (2014) looked into how tangibility investments affected the profitability of a few Nigerian lease banks. The information was taken from these specific Nigerian lease banks' annual reports. Using multiple regressions and Pearson product moment correlation, the link between the independent variables (building, land, leased premises, fixtures and fittings, and computer investment) and the dependent variable (net profit) were investigated. As anticipated, the findings revealed a substantial correlation between the independent and dependent variables. All things considered, fixed assets have a significant and positive impact on Nigerian banks' profitability. Kibuu (2015) investigated the impact of asset tangibility on financial performance in a different study. 33 businesses that were listed on the Nigeria Exchange Group (NEG) between 2010 and 2014 made up their sample. Thus, financial success as measured by return on assets (ROA) was the dependent variable, whereas leasing finance, firm size, and liquidity were the independent factors. According to the study's findings, lease financing had a minor but positive effect on ROA. Lease financing is determined by dividing net sales by the company's fixed assets.

H1: *The tangible nature of Nigerian listed conglomerate firms' assets has little bearing on their financial success.*

2.3.2 Total Assets and Financial Performance

In a study carried out in Kenya et al., (2017) looked at the relationship between the factors impacting the total assets of manufacturers listed in Nairobi on the Kenya Stock Exchange. The results were analyzed using descriptive and inferential statistics. The total assets turnover index, which is computed by dividing sales by total assets, and business performance were found to be strongly positively correlated in the study's findings. Similarly, Utami (2017) examined the correlation between Malaysian pharmaceutical companies' financial success and the total assets turnover index between 2013 and 2016.

Additionally, Gospel and George (2019) investigate the connection between the financial performance of breweries listed on the Nigerian Stock Exchange (NSE) and their overall assets. The results of the study demonstrate that business size and financial performance are impacted by total assets turnover, which is the leasing variable of the companies. Purposive sampling was used in the selection of the 45

businesses. Four breweries that used lease financing in the NSE between 2008 and 2017 made up their sample. In particular, net assets per share and earnings per share were used to gauge financial success, whilst total assets turnover was used to gauge lease financing. They found that lease financing arrangements have a considerable impact on net assets per share and earnings per share, which are indicators of financial performance. The assets turnover index is calculated by dividing net sales by total.

H2: *Total assets have little effect on the financial performance of Nigerian listed conglomerate corporations.*

2.3.3 Financial Performance and Lease Income

Asuquo and Anyadike (2018) looked into how the corporate performance of Nigerian deposit money banks was impacted by operating financing. Therefore, the study sample consisted of fifteen deposit money institutions that were listed between 2005 and 2016 on the Nigerian Stock Exchange. The data was analyzed using ordinary least squares and multiple regression analysis. It was demonstrated empirically that the study's findings on the correlation between finance leases (lease revenue) and business performance as measured by profitability and return on assets were both favorable and noteworthy.

Arshad et al., (2020) looked into Pakistan's oil and gas leasing, extending the time frame Asuquo and Anyadike (2018) examined. Nine financial lease companies that were listed in Pakistan and engaged in lease financing between 2013 and 2017 were included in their sample. Financial performance was the dependent variable in their analysis, whereas leasing finance was the independent variable. According to empirical research, there is no significant correlation between the independent variable of total lease to total revenue and the financial success as determined by return on assets (ROA). Additionally, the results showed that firm size, a control variable, significantly and favorably affects a company's financial success.

H3: *Lease income has little bearing on the financial performance of Nigerian listed conglomerate firms.*

2.4 Theoretical Framework

The bankruptcy cost theory (BCT) was developed by Neuberger and Rathke (2012) and asserted that the ownership of the equipment ability by lessors gives room to the lessee to use the assets at expense financially distressed and debt that could have been faced by the lessees. Compared to the costs of debt and the issue, lease rates are more likely to be cheaper than underinvestment can be overcome (Rampini & Viswanathan, 2013; Stulz & Johnson, 1985). In a differing perspective,

contended that operating leasing in fact, affects the debt capacity of firms and is a substitute to debt being long term fixed contractual obligations to make periodic payments amortizing the capitalized liabilities. Operating leasing therefore contributes just as much to the risk of bankruptcy and its inherent costs for lessees. Contrary to the assertion by Rampini and Viswanathan (2013) on lease rates, highlighted that agency problems could likewise arise between the lessor and lessee from separation of ownership and control of assets.

Importantly, from an analytical point of view, this is in form of hazardous moral activities with regards asset use, affecting lease rates negatively for the lessee. Bailey and Katz (2010) further acknowledged the complexity of lease contracts; cancellation penalties, negotiation costs of disposing leased assets and loss of operational mobility in diversifying asset base for finance leases which in aggregate, could surpass any gain associated with lower bankruptcy costs to the lessor. In short, bankruptcy costs are classified into direct and indirect costs. First, the administrative and legal costs incurred by a company that files for bankruptcy are considered direct costs of bankruptcy. Second, the firm's diminished market value as a result of its incapacity to pay off its debts is one of the indirect costs of bankruptcy (Munene, 2014).

3.1 Techniques

Descriptive statistics, correlation, and multiple regressions were used to analyze the data. Ordinary lease square (OLS), fixed effect model (FEM), random effect model (REM), and Hausman tests were therefore compared after the task was finished in order to arrive at the optimal analysis. Data for this study came from annual audited accounts of conglomerate companies listed on the Nigeria Exchange Group between 2015 and 2024. For the working population of five businesses that conducted financial leasing and whose financial records were accessible on the Nigerian Exchange Group as of December 31, 2024, this study used the purposive sampling technique. Tangible assets, total assets, and lease income are the explanatory factors that make up a financial lease and return on asset is the dependent variable that measures financial success. STATA version 15.0 is utilized in this work as the foundation for data analysis.

3.2 Model Specification

The model was developed based on Gospel and George's (2019) research. The variable given above can be stated as the result of $FP = \alpha + \beta 0 + \beta\ (AT) + \beta\ (TA) + \beta\ (LI) + e\ldots 1$ where FP is the industry's businesses' financial performance ratio, and α is an intercept. TA stands for total assets, LI for lease income, β for the

coefficient variable of assets tangibility, and e for the error term. The justification for choosing this model stems from extensive literature review.

Table 1: *Summary of Measurement, Operationalization of Variables and Sources*

Variables	Measurement	Sources
Financial Results	Divide the profit after taxes by the total assets.	Fidelis et al. (2019); Gospel and George (2019); Peter, Yusuf, and Isa (2021).
Assets tangibility	Dividing fixed assets by total assets	Bahaa and Bahaa (2021); Kibuu (2015)
Total resources	The period's net sales as a percentage of total assets	Yusuf and Isa (2021); Mary and Charles (2017).
Rent revenue	Total revenue divided by total lease	Asuquo and Anyadike (2018); Sylva; Alkhazaleh et al. (2018); Arshad et al. (2020).

Source: Literature Review, 2025

3.3 Data Collection

The process of gathering data from the chosen subjects of a study is known as the data collection procedure. This study utilizes data from a secondary source. Based on the nature of the research design, the availability of data, and the purpose of the study, this data gathering approach was chosen. The Nigeria Exchange Group Websites (NEG) and the websites of the listed conglomerate companies provided the annual audited financial statements and reports. Additionally, as part of the secondary data required to an analysis of the degree to which the independent variables impact on the financial performance of conglomerate firms during the study period, the audited financial statements and reports were used.

3.4 Research Design

According to Zikmund and Babin (2012), research design is the overarching strategy for addressing potential challenges during the research process and acquiring answers to the research questions. An ex-post factor design was employed in this investigation. Because the study is quantitative in nature, the design was chosen for that reason. Since the data gathered was historical in nature and based on the listed companies' prior performance, the ex-post factor design was deemed suitable. This makes it possible to gather historical data, which serves as the foundation for fully establishing the connection between the financial performance of listed Nigerian conglomerates, asset tangibility, and total assets. This suggests that there was no opportunity to manipulate the factors being studied; the study simply reported what had occurred.

4.1 Validation of Study Data

In empirical research, the Hausman test results are used to choose between using a random effect or a set effect. This is how the Hausman specification test was carried out in the study. The results of this test were not statistically significant, indicating that the random effect model was the best choice. Therefore, a fixed effect model should be examined in every investigation if the probability is significant. In contrast, if the probability is not significant, every investigation should look at a random effect model. Generalized Least Square (GLS) regression results serve as the standard for approving Hausman test specifications. In other words, if the probability coefficient (Prob>chi2) is either less than or more than 0.1. Because the Hausman specification result is not significant. This study used the random effect (Prob>chi2=0.0171, which is not significant at 0.0000).

Table 2: *Characteristic Data*

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	50	3.088866	1.974215	-13.44904	1.822347
AT	50	.5123788	.2409991	.1290615	.9120796
TA	50	3.543011	4.01583	.2299453	13.37941
LI	50	3.485397	9.331039	-4.597537	64.98546

Source: STATA Version 15.0, 2025 output

Table 2 displays the 50 observations that were made during this inquiry. The degree of return on assets, a metric used to assess the companies' financial performance, was determined to be 3.08. This suggests that the conglomerate companies' leased assets have improved performance. It implies that it is a sign that lessees can trust the lease investment firms. Because their return on investment is secure, this will consequently encourage the lessee to make additional investments in the company. Additionally, the descriptive data revealed that the businesses' maximum and minimum asset tangibility are 91.20 and 12.90, respectively. This demonstrates that one of the factors that predict financial performance is the tangibility of assets, which is evaluated as net sales to fixed assets.

In terms of other total assets, it was revealed from the descriptive statistics that the minimum and maximum values are .22.99 and 13.37. It is an indication that total assets of the company lease out are yielding more return in the process. Thus, both lessors and lessees can continue with the business because of such results. Importantly, the lease income minimum and maximum value are -4.59 and 64.98. This clearly shows that the companies are at their peak for contributing to economic development. This will improve the lives of both lessors and lessees in the long run. Since all maximum values are positive except for lease income, which is negative. It

suggests that improved financial performance is a result of the combined efforts of all the independent variables in the study.

Table 3: *Model Regression (OLS) Results*

Changeable	OLS IN POOLED	Random Impact	Fixed Impact
AT	.08637 (0.18) *	.0863 (0.853) *	.4528 (0.537) *
TA	-.0172 (0.557) *	-.0172 (0.538) *	.0223 (0.616) *
LI	-.2078 (0.000) ***	-.2078 (0.000) ***	-.2106 (0.000) ***
_cons	.4324 (0.220) *	.4324 (0.195) *	.1140 (0.826) *
F-Statistics	0.000 31.409 ***	(0.0000)	(0.0000)
R-Squared	0.9535	R^2=0.5342 (within)	R^2=0.5275 (within)
Adjusted R^2	0.9504	R^2= 0.5746 (between)	R^2 (between) = 0.4889
		R^2=0.5537 (overall)	R^2=0.5046 (overall)

Source: STATA Output, Version 15.0, 2025

The best analysis for this study was regression analysis using OLS random effect and fixed effect, as shown in Table 3 above. The study's variables' (R^2) determination coefficient shows that 95.35% of the variables relate to the companies' return on assets. This indicates that variations in the model's explanatory variables can be used to explain the companies' financial performance as determined by their profit after taxes divided by their total assets. Consequently, 6.65% is composed of extra elements not included in the model. Additionally, because the random effect result is 55.37%, which indicates that other factors account for 44.63% of variations in financial performance, it is more effective. At the 1% level, the model is statistically significant and matches the study. Based on the regression analysis's findings, 47.05% was attained with regard to the leverage variable. The statistical value of 0.986 indicates that the significant level is weak, however the findings did confirm a reasonable link with firm value at 47.05%. The reason for this statistical weakness in the value of leverage is that the variable does not meet the benchmark of 0.000 at any significant level. Leverage is not a contributing element to business value, as seen by the limited correlation between the two. The coefficient is moderate at the 47.05% level. But, at 0.000, the p-value is not significant. The current study's findings are in line with research by Batchimeg (2017) and Kariuki et al., (2015), which also discovered a negative relationship between the organization's financial success and asset expansion. The results of the robust analytic test showed a positive correlation between the dependent variable, firm value, and the company's age, with a p-value of 0.000 and a coefficient of 71.55. Furthermore, the regression analysis's findings demonstrated that the firm's age is a significant determinant of its worth, which is the study's dependent variable. The study supports the conclusions of Kolawole et al., (2021) as well as Yitayaw (2021).

Table 4: *For both Random and Fixed Effects, the Hausman Specification Test*

Hausman fe re. Coefficients	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	fe	**re**	**Difference**	**S.E**
AT	.0418832	.0573401	-.0154569	.0054688
TA	-.0039345	-.0109551	.0070206	.0037978
LI	-.1892344	-.1881394	-.001095	.0006898

Based on xtreg, According to Ho and Ha, b = consistent
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 13.10
Prob>chi2 = 0.0224
(V_b-V_B is not positive definite) estimates store Hausman

The Hausman test specification, which is displayed in table 4, was used to test both fixed and random effects. According to the results of the Hausman test, the study's probability chi2 was 0.0224. It demonstrates that the number is below the Hausman test trench-hold of 0.0000. This has shown that the best model for forecasting the influence on financial performance is the fixed effect model. Both the fixed effect and the random effect will be selected if the prob>chi2 is less than 0.05 or greater than 0.05. The above table figure of 0.0224 for the Hausman specification test is not unexpected. The choice to employ the fixed effect model is therefore justified because the prob>chi2 is within the 0.0000 range.

5. 1 Concluding Remarks and Suggestions

Investigating the relationship between operating leasing methods and the financial performance of conglomerate firms listed on the Nigeria Exchange Group is the goal of the current study. Based on the results, this study comes to the conclusion that the independent variables affect the financial performance of conglomerate firms in the Nigeria Exchange Group in both positive and negative ways. Therefore, it is suggested that the following be improved by Nigerian conglomerate company management:

i. The management of Nigerian conglomerate firms' goal is to genuinely increase the tangibility of their assets as part of operating financing to support financial performance. Additionally, the first hypothesis in this study is assets tangibility. Therefore, managers of the businesses should keep using their physical assets efficiently in order to boost financial performance for both the enterprises and the lessees. Avoiding investments in assets that don't enhance the financial performance of the companies is one way to do this. This means removing resources that don't increase operational efficiency. As a result, it will reduce the cost of the assets that will be leased to the lessees, ensuring that they are utilized as effectively as possible to boost the company's financial performance.

ii. Managers of corporations should also improve on total assets and lease out at reasonable cost to the lessees to avoid defaulting in the pay back by the lessees. Specifically, the volume of their payback period as agreed will strictly be adhered to and will boost their returns to attract financial performance of conglomerates firms. Meanwhile, the second hypothesis, which is the total assets, is expected to be improved on and the goal of the firm will be achieved. This can be achieved by reducing the cost of leasing the assets out to the users of the lease equipment.

iii. Finally, the management conglomerates firms should deploy the assets of the organization appropriately to enhance financial performance as their goals. Hence, it was confirmed from the analysis that lease income as the third hypotheses of the study of the conglomerates firms does impact positively. Therefore, management of the organization is charged with the responsibility to oversee the affairs of the company to do the needful as the lease income has significant influence during the practice of the business.

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