

**RELATIONSHIP BETWEEN LEASING MODEL OF ASSET FINANCING  
VERSUS BUYING AND PERFORMANCE OF PUBLIC AGENCIES**

**BY**

**JONAH SUNDAY ANZAYA**

**D61/71826/2011**

**SUBMITTED ON: 31<sup>st</sup> OCTOBER, 2016**

**RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENT FOR THE AWARD OF MASTERS DEGREE IN BUSINESS  
ADMINISTRATION TO UNIVERSITY OF NAIROBI**

## **DECLARATION**

I affirm that this is my original work and to the best of my knowledge it has not been published or submitted for a degree award in any other University or Institution of higher learning.

Signature .....

Date .....

**JONAH SUNDAY ANZAYA**

The research study has been submitted for examination with my consent as the University's supervisor.

Signature .....

Date .....

**JAMES M. NG'ANG'A**

## **ACKNOWLEDGEMENT**

My sincere appreciation goes to all those who untiringly gave me their support, guidance and encouragements as I worked on the study.

First of all, I am forever indebted to my supervisor Mr. James N. Ng'ang'a for the tremendous support he accorded me in the entire period and the constant guidance.

Secondly, I wish to thank my mother Damaris Achando who sacrificed her entire life to ensure that I get the best she could afford and my wife Nancy Sunday who has been with me every step of my journey.

Lastly, thanks to the Almighty God for the wisdom, good health and guidance.

## **DEDICATION**

I devote this study to my whole family for the unrivaled support and prayers that have seen me through.

# TABLE OF CONTENTS

|   |      |
|---|------|
| DECLARATION .....                       | ii   |
| ACKNOWLEDGEMENT .....                   | iii  |
| DEDICATION .....                        | iv   |
| LIST OF ABBREVIATIONS.....              | vii  |
| LIST OF TABLES.....                     | viii |
| LIST OF FIGURES.....                    | ix   |
| ABSTRACT.....                           | 1    |
| CHAPTER ONE .....                       | 3    |
| INTRODUCTION.....                       | 3    |
| 1.1 Background of the Study .....       | 3    |
| 1.2 Statement of the Problem.....       | 5    |
| 1.3 Objectives of the Study.....        | 6    |
| 1.3.1 General Objectives.....           | 6    |
| 1.3.2 Specific objectives .....         | 7    |
| 1.4 Research Questions/Hypotheses ..... | 7    |
| 1.5 Value of the Study .....            | 7    |
| CHAPTER TWO .....                       | 9    |
| LITERATURE REVIEW .....                 | 9    |
| 2.1 Introduction.....                   | 9    |
| 2.2 Theoretical Review .....            | 9    |
| 2.2.1 Agency Costs .....                | 9    |
| 2.2.2 Modigliani-Miller Theory.....     | 10   |
| 2.2.3 Pecking Order Theory.....         | 11   |
| 2.3 Empirical Review.....               | 12   |
| 2.4 Summary of Literature Review.....   | 14   |

|   |    |
|---|----|
| CHAPTER THREE .....                         | 16 |
| RESEARCH METHODOLOGY .....                  | 16 |
| 3.1 Introduction.....                       | 16 |
| 3.2 Research Design.....                    | 16 |
| 3.3 Population and Sample .....             | 17 |
| 3.4 Data Collection and Scope.....          | 18 |
| 3.5 Description of the Instrument .....     | 18 |
| 3.6 Data Analysis and Presentation.....     | 18 |
| CHAPTER FOUR .....                          | 21 |
| DATA ANALYSIS, RESULTS AND DISCUSSION ..... | 21 |
| 4.1 Introduction.....                       | 21 |
| 4.2 General Information.....                | 21 |
| 4.3 Method of Vehicles Procurement .....    | 27 |
| 4.4 Aspects of Lease Competence .....       | 29 |
| 4.5 Communication to the Lessor .....       | 32 |
| 4.6 Firm Performance .....                  | 36 |
| CHAPTER FIVE .....                          | 37 |
| 5.1 Introduction.....                       | 37 |
| 5.2 Discussion of Findings.....             | 37 |
| 5.2 Conclusion .....                        | 39 |
| 5.3 Limitations .....                       | 40 |
| 5.4 Recommendation .....                    | 40 |
| REFERENCES.....                             | 41 |
| APPENDICES .....                            | 43 |

## **LIST OF ABBREVIATIONS**

BCA Benefit Cost Analysis

CBA Cost Benefit Analysis

CBK Central Bank of Kenya

KeS Kenya Shillings

KPS Kenya Police Service

NTSA National Transport and Safety Authority.

TNT The National Treasury

ROA Return on Assets

SMEs Small and Medium Enterprises

MDA Ministry, Department and Agencies.

**LIST OF TABLES**

Table 4.1 Gender..... 21

Table 4.2 Designation ..... 22

Table 4.3 MDA..... 23

Table 4.4 Communication to the Lessor ..... 32

Table 4.5 Lease rentals, Reviews and Incentives..... 35

Table 4.6 Firm Performance ..... 36

## LIST OF FIGURES

|  |    |
|--|----|
| Figure 4.1 Experience in Government .....                                  | 24 |
| Figure 4.2 : Education Level.....  | 25 |
| Figure 4.3 How Vehicles are acquired.....                                  | 26 |
| Figure 4.4 How Vehicles are acquired.....                                  | 26 |
| Figure 4.5 Cash flow plans and remit lease rentals to the lessor .....     | 27 |
| Figure 4.6 Participation in lease agreement negotiations and reviews ..... | 27 |

## **ABSTRACT**

Leasing is an alternate to direct purchasing of assets which enables various firms both private and public in financing equipment, plant and business vehicles. Commercial banks have in the recent days signed up agreements to offer leasing services to their various customers. The Government of Kenya has in the recent past employed the two methods of acquiring assets in order to find out which one is more efficient and their impact on the performance of the Government Agencies. However, there remains no practical proof on the relationship between lease financing and performance of Government agencies. There is also no well documented information relating to Lease financing and performance of Government agencies and other commercial firms.

The purpose of this research was to therefore find out in what ways leasing by the Kenyan Government Agencies is improving overall performance in service delivery. This study sought to find out if it's also beneficial for Government to undertake lease of other capital equipment both monetary and non-monetary.

The population under study was Government Agencies who are using the two methods of procurement for their motor vehicles and a questionnaire was administered to various relevant officers in Government involved in procuring process. More data was extracted from the various performance reports published and data from Kenya National bureau of Statistics.

While both methods of procuring are being used, there is an increase in use of the leasing method as a preferred method. This is because; leasing has more merits than the corresponding direct purchases. Government is better of adopting the use of leasing as it

ensures quality maintenance of vehicles clearly spelt out in leasing agreement. The study also found out that with well maintained vehicles there is timely service delivery and efficiency in KPS and NTSA duties.

However some of the limitations included limited time frame within which the leasing method has been used by the said Government Entities to give a clearer conclusion and also more data is required from Government and its MDAs to ascertain with more accuracy the effectiveness of leasing since the data available is not reliable enough for significant conclusions.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Leasing or hiring as it is known sometimes is another means of financing tools, plant and trade vehicles. This is an agreement between the owner of equipment (the lessor) and a different party (the lessee) granting the lessee authority and use of a definite asset in return for compensation of precise rentals over an agreed time. Generally, the lessee may or may not be at liberty to obtain title to the commodities through the exercise of an option to buy, usually at the end of the lease term. The main task of lessor is to fund the procurement of the equipment required by the lessee who will have selected the assets and dealt with the supplier in deciding their performance qualities and suitability .The main types of leasing are operating and financing leasing.

The lease growth rate is over ten percent globally compounded yearly for the past five years. There has been important growth in the leasing industries of the small and medium size countries but the biggest nations of United States, Japan and United Kingdom have continued to dominate lead position-Porter (2006). South Africa is among the lead lease industries (markets) of the world and it is expected to continue to do well than Nigeria in spite of the population and advancement in the oil and gas sector of Nigeria (Oko & Hamilton 2013)

Government's inability to minimize it's expenditure on assets and lack of efficiency in its operations is seen as a major barrier in provision of critical services like security,

promoting law and order as well as fast tracking major infrastructural developments. The Government of Kenya has been forced to look at other methods of asset acquisition leasing included in order to improve performance of its Agencies. Leasing is a different way of financing tools, plant and trade vehicles.

A number of Government entities have also in the recent past employed leasing method as one of the methods to acquire assets. However, there is no specific study carried out previously to analyze leasing and how it impacts on Kenyan Government performance in service delivery. According to Toyota Kenya, Kenyan Police Service (NPS) has leased 1,680 vehicles from them on pilot basis while National Transport and Safety Authority (NTSA) have leased 45 vehicles from Chevin fleet. This expected to be rolled out to other Government Ministries, State departments and Parastatals.

However there is no empirical evidence on the relationship between lease financing and performance of Government agencies. There is also no well recognized information relating to Lease financing and performance of Government agencies and other commercial firms. At the same time there is no clear evidence on whether leasing is more beneficial to Government agencies performance.

The purpose of this research was to therefore find out in what ways leasing by the Kenyan Government Agencies is improving overall performance in service delivery as indicated in various performance contracts. This study sought to find out if it's also beneficial for Government to undertake lease of other capital equipment both monetary and non-monetary.

Government of Kenya currently employs two methods concurrently in procuring its vehicles to date. This study therefore sought to analyze the two methods and come out with conclusions on which one is more viable in the long-term to the Government and the general public, the drawbacks, performance levels and procurement complexities.

A number of theories which have been extensively used by several researchers in this area of study include; Modigliani & Miller, pecking order theory, financial intermediation theory, lease-debt substitutability theory and trade off theory. There was a study of twenty four sectors in Nigeria that showed that only 11 (11 of 45.8%) used lease based productive technologies-Oko (2008). This outcome is a confirmation that Nigerians are yet to appreciate the advantages of leasing compared to alternative strategies of acquisition of dynamic technologies

## **1.2 Statement of the Problem**

Government of Kenya unlike the commercial firms is not concerned about the bottom line but service delivery. It gets its revenue from taxes, loans and aid from donors. Political and social considerations are also done before any major purchases are done for various needs in the Country. This presents a unique and quite different setting for operations.

There is need for a lot of funds to respond to emerging problems in provision of critical services in the areas of security, medicine, food and infrastructure and transport development. Without finance, Government agencies cannot employ latest technology in solving these problems neither can they be able to meet demands of the ever rising population in fast changing world.

However most of African Governments are unable to do this even when they have adequate funds since a lot of it is lost through procurement process, wastage and maintenance of the various assets owned. The alternative to direct purchasing is the lease option; the problem that remains is to find out if the system is efficient and can be a better alternative in influencing positively the performance of Government Agencies.

Cost of life increases sharply whenever Government borrows from commercial banks not only to finance some of these critical services but to also acquire assets inform of equipment and vehicles due to high repayment costs.

Larger private firms and some SMEs have been putting a lot of effort in lease financing. Most of studies which have been conducted in Kenya paid attention to determinants of Lease financing but no study has looked into benefits of leasing vis-à-vis direct purchase to the Government of Kenya and its impact on general performance.

There remains no empirical evidence on the relationship between lease financing and performance of Government agencies. This study aimed to fill this gap by investigating the relationship between lease financing and performance of the various Government agencies who are beneficiaries of leased vehicles.

### **1.3 Objectives of the Study**

The study had both the general and specific objectives.

#### **1.3.1 General Objectives**

The common purpose of this study was to establish the connection between leasing model of asset financing versus buying and performance of public agencies.

### **1.3.2 Specific objectives**

The specific objectives of this study were:

1. To find out whether the KPS improved in service delivery since getting more vehicles financed through leasing.
2. To establish if the NTSA been able to cover more ground in its operations since getting more vehicles financed through leasing.
3. To find out whether the National Treasury been able to save any funds from its leasing program.
4. To find out the difference in Government owned vehicles and the leased ones in terms reliability considering the servicing, maintenance and operation costs.

### **1.4 Research Questions/Hypotheses**

1. Has the KPS improved in service delivery since getting more vehicles financed through leasing?
2. Has the NTSA been able to cover more ground in its operations since getting more vehicles financed through leasing?
3. Has The National Treasury been able to save any funds from its leasing program?  
If so what have the funds been used to do and their impact?
4. What is the difference in Government owned vehicles and the leased ones in terms reliability considering the servicing, maintenance and operation costs?

### **1.5 Value of the Study**

There are three beneficiaries to this study; the Government of the day, Small and Medium Enterprises and the general public who are the tax payers.

Government of Kenya is generally known to have poorly documented information in the finance and asset acquisition and maintenance. The study has given an insight on the link between lease financing and performance of Government agencies that have benefited from lease program.

The study also did comparison between leasing and direct purchasing with an intention of finding out which of the two is more efficient and offers value in terms of performance. The studies also gave an insight into how efficient this method is to government in terms of funds management.

This study also gave an insight on the connection between lease financing and performance of Small and Medium Enterprises (SMEs). This is because there is very scanty systematically documented information in this field in general.

Through this study, the general public that are the tax payers have to find out if there is any value for their money, and if deed any of these methods affects service delivery positively that's the non-financial benefits to the common man.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Literature review enabled the process of identifying models, case studies to support this study as well as established my area of study and theoretical framework. The study sought to examine various materials from different studies and literatures carried out in support of either leasing or buying assets with an aim of providing information on why leasing or direct buying should be adopted all Governments agencies in comparison to their performance.

#### **2.2 Theoretical Review**

Theoretical literature focused on three main theories of Lease financing. These theories were expected to give an insight on how leasing issues are arrived at, how they affect the relationship between the management and the shareholder as well as the assumptions made.

##### **2.2.1 Agency Costs**

Agency costs are internal costs that result from issues related to conflict of interest between the management and owners of the business. Normally, shareholders require the management to run the company in a way that upturns shareholders worth. On the other hand management normally runs firms in a way that increases their personal influence and wealth. This may not be in the interest of the owners. In this case, shareholders are the public which pays tax and the Management is the Government of the day.

Leasing most likely reduces agency costs of the separation between ownership and control in bigger companies, this is because leasing is not an investment decision and lessors have first claim over the asset (Lasfer and Levis, 1998). However, the separation between ownership and control of the leased asset involves agency costs even in smaller, owner-controlled firms (Eisfeldt and Rampini, 2009).

### **2.2.2 Modigliani-Miller Theory**

The Modigliani-Miller theory which is popularly known as MM forms the base of the leasing finance theory. In a neoclassical view the rental terms offered by a lessor have to reflect the underlying cost of owning the asset subject to the lease contract that is interest and depreciation. In a flawlessly reasonable market, lease contracts with no taxes, transaction costs and bankruptcy costs, the quoted lease rates would adjust until the financial costs of leasing and buying were equal. Hence firms should be indifferent on whether to lease or buy assets. In practice though whether to lease or buy is usually not a matter of indifference to firms (Miller and Upton, 1976, p. 762) and both leasing and debt/equity financing are co-existing.

Acquiring the services of capital goods involve both financial and non-financial costs of procurement, maintenance, repair and disposal. Separating the ownership and use of the capital goods can create opportunities for specialization and superior competence in these separate roles. Sometimes pursuing these productivities can become the decisive factor for a company considering between leasing and owning an asset (Penttinen 2012).

### **2.2.3 Pecking Order Theory**

This theory states that organizations usually have a desired pyramid for financing decisions. Firms will normally resort to use of borrowed funds or issuing of equity when the internally generated funds are not enough to fund capital expenditure. This is because internal funds usually has no extra costs like floatation costs and also no disclosure of financial information is required which sometimes may lead to loss of competitive edge. For firms that must employ external funds, the inclination is to follow a specific order of financial sources: debt comes first, then convertible securities, preferred stock and lastly common stock, Myers (1984).

The total amount of debt will reflect the firms' cumulative need for external funds. The theory makes two assumptions about finance managers. The first one is that, there is a high chance that the managers have more knowledge about the firms's current earnings and future growth opportunities than outside investors. Normally there is a There is a strong aspiration keep such information within. The second assumption is that the managers will operate in the best interests of the firm's current shareholders.

However this theory has a number of drawbacks since no reasons are given on the impact of agency costs, financial distress, security issuance costs, or the set of investment opportunities available to a firm upon that firm's actual capital structure. It also ignores the difficulties that can arise when a firm's managers accumulate so much financial slack that they become immune to market discipline. Therefore this theory is seen as balance to the traditional trade-off model.

### **2.3 Empirical Review**

This section cited the various relevant empirical studies done on lease financing, the outcomes of the studies and finally an explanation of the outcome. The relationship between leasing of assets and performance of Government agencies hasn't been widely studied. The transport department of Korean Air force suffered due to dwindling budget, there was no existing study on the best possible way of acquiring vehicles and therefore there was need to carry out a study to find out exceptional that could advance appreciative information for information for assessment and vehicle procurement options. A study was carried out with a attention on providing the inexpensive alternate of vehicle acquisition, while meeting Korean National Defense goals. (Jung Jin Kim 2002)

United States Department of defense needed big quantities of vehicles after the Second World War; this led to establishment of General Service Administration (GSA) to oversee re-stocking of the vehicles. Therefore this was an incentive enough for the United States of America Air force to carryout leasing versus buying. (Neal, undated).

The Philippine Government weighed down by limited budgetary allocations, increased pressure to deliver faster and better services as well as competing needs, while at the same time managing expenses and provision of general services had to carry out a study to enable it look for more cost effective approach to its fleet management. Previously there was no study carried regarding leasing versus buying. (Department of Budget and Management May 2014).

Other researchers on the United States Air force vehicles argued that ownership of the vehicles was more flexible and appropriate option for military assignments and

objectives, they also argued that this would prevent performance uncertainties and less morale arising from the lease option, where the resources such as equipment, labor and amenities were eliminated. (Synergy Inc, 2000).

A study was carried out to analyze the effects of company specific factors on leasing decisions, corporate environment, and effects of corporate governance on leasing decisions and determined the effect of lease specific environment factors on leasing decisions by firms quoted on public traded firms. The results indicated that cost of capital, financial distress, size, management compensation, total debt ratio were important in explaining lease decisions. The results of the study indicated that just like in developed countries effective tax rate and size of the firms were important in making leasing decision. However, financial distress and leverage were not major consideration by firms in making leasing decision. (Simiyu, 2013)

Majority of the respondents i.e. 44.68% were not satisfied with the policy and legal framework governing lease financing in the country during a study carried out. It was observed that laws and regulations available were not encouraging hence hindering the development of their businesses. The findings of the study also indicated that the respondents lacked access to information and as a result lacked access to credit. (Mogire, 2013)

The study concluded that lack of adequate knowledge prevented SMEs from generating lease from banks or leasing companies due to their weak accounting standards since majority did not have tertiary education. As a result of this it was difficult for leasing firms to obtain information about prospective borrowers. The study concluded that

resource levels affected lease financing since most high lending financial institutions had policies that hindered SMEs from securing loans.

To facilitate a loan from high lending institution SMEs had to disclose their financial status and other compliance requirements which they did not have the capacity to handle. He sought to find out the determinant of lease financing in Kenya with a main focus on Kisii Municipality. The municipality is now a County Government which means there may be some variance though not much since it is still under political management. His study also focused on SMEs and this study intends to focus on lease financing and Agency performance of Government Entities (Mogire, 2013)

#### **2.4 Summary of Literature Review**

Modigliani–Miller theorem, Agency costs and Pecking order theory under the theoretical review have provided some discernments into financing decisions, agency costs, conflict of interest, nonfinancial costs of procurement, opportunities for specialization, efficiency and preference to use internal financing. On the other hand, empirical review looked at studies done on lease financing, the outcomes of the studies and explanation of the outcome.

Though the relationship between leasing of assets and performance of Government agencies hasn't been widely studied, a few studies related have been carried out. Korean Air force Transportation department, United States Department of defense and Philippine Government have had to carry out a study to enable it look for more economical and cost effective approach to its fleet management and asset leasing.

Mogire was also able to demonstrate dissatisfaction with the policy and legal framework governing lease financing in the country which were hindering the development of their businesses. The findings of the study also indicated that the respondents lacked access to information and as a result lacked access to credit. The focus for many researchers has been financial but very few if any have focused on the non-financial benefits.

This lends credence to importance of this study since very little has been done especially in Kenya in finding out if the various Government agencies who are beneficiaries of leasing have improved in their finance management and service delivery in their areas operations. This will also help to find out the strength and weakness of leasing and how it compares to direct purchasing in relation to performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the study sought to give summary methods that were applied in the process of this study. This involved collecting, processing, measurement and finally investigation of the data. Therefore this section was an overall system, arrangement or arrangement to support the study in finding out answers on whether to lease or buy vehicles by Kenyan Government through analyzing cost and benefits both tangible and intangible.

The research therefore identified the processes and systems that were employed in compilation, processing and scrutiny of data as explained in the following subsections.

#### **3.2 Research Design**

This is a practical plan that guides the investigator in the course of gathering, examining and inferring remarks, in an effective, precise and cost-effective manner (Kumar, 2005).

This is a rational model of confirmation that allows the investigator to draw interpretations regarding fundamental associations among the variables under the investigation.

Causal design was adopted to try and find the answers on the two variables under the study; lease financing vis-à-vis buying in relation to the performance of Government Agencies. Causal relationship normally exists where a variable results in a change of another variable. Therefore, Causal Research explores the effects of one item on another

and specifically the effect of one variable to another. This establishes the relationship between an event and a second event, where the second event is understood as a consequence of the first (Cherry, 2013). This design is the most appropriate for this project because the objective is to determine which variable might be causing delinquency; or rather, whether there is a cause and effect relationship between variables.

The instrument that was used to collect data was a structured questionnaire. This is because a questionnaire would be the most suitable mechanism for this study because:

- (i) It provides data of descriptive statistics for comparing the two asset acquisition methods in relation to performance.
- (ii) It incurs very little time since respondents take the least time to reply to the questions).
- (iii) Closed- ended questions facilitate collection of data relevant to the research question only.
- (iv) Confidentiality and privacy of the respondent is assured.

### **3.3 Population and Sample**

Research population is the assembly of numerous objects, features or people who are the objective for research exercise. Population is a precise set of people, services, and events, group of things or households that are being investigated. Ngechu (2004)

The population for analysis was from The National Treasury, Ministry of Interior and National Coordination (parent Ministry to Kenya Police Service), Ministry of Transport & Infrastructure (parent Ministry to National Transport and Safety Authority). They provided information on maintenance, repairs, lease and performance levels for analysis.

Target respondents included Finance officers' in-charge, Planning officers' in-charge, and Heads of accounts at Ministries' headquarters, Administrators and Auditors. Population of interest must have some clear features, to which the researcher intends to generalize the results of the study. (Mugenda and Mugenda, 2003).

### **3.4 Data Collection and Scope**

In this study, a questionnaire was issued individually to all respondents. A register of questionnaires was well kept. The questionnaires for this study was administered by use of pick and drop method.

Secondary data was gathered from published financial reports by the National Treasury, Kenya National Bureau of Statics and Central Bank of Kenya. Secondary data is very useful in getting or estimating Secondary data is a useful measureable technique for estimating chronological and confidential or public reports, government documents and opinions. (Cooper and Schindler, 2003)

### **3.5 Description of the Instrument**

The researcher kept all answers got from respondents' confidential due to sensitivity of the target group assignments. There was an introduction clause describing the study and a statement informing the respondents that their responses will remain anonymous.

### **3.6 Data Analysis and Presentation**

This is the procedure of mining what is significant and valuable from the data collected. Once questionnaires were completed and secondary data collected from various reports and journals, it was amended, veiled and checked for precision, applicability, completeness and uniformity before processing. According to Better Evaluation (CBA)

which is sometimes referred to as Benefit Cost Analysis (BCA) is system used to relate all the costs incurred in the project with resulting benefits in financial units.

Benefit Cost Analysis (BCA) method enables the computation of the net benefits and costs related to the project. This is used especially at the beginning of a project when various options are being appraised and compared as a way of choosing the best approach. This can also be used in evaluation of complete effect of a project in some measurable and monetary terms. (Prime Minister's Strategy unit, 2004)

Two approaches can be applied when using CBA; one is to achieve lowest expenses given the Governmental goals and the other is to get utmost benefit given achieve the maximum benefit given insufficient budget. (Jung Jin Kim 2002).

In Kenyan case where the budget is limited and there is need to achieve more from the few resource, the best approach would be to achieve maximum benefit given limited budget. This is the same approach used by Jung Jin Kim while carrying out his research on Korean National Defense.

The results of the study and all the related information was displayed by use of bar charts, tables, pie charts and graphs. Where appropriate tables and other graphical presentations will be used to present the data collected for ease of understanding and analysis.

The Kenya Police Service and the National Transport and Safety Authority where the main focus of the study is have not clearly defined goals in vehicle management and performance measures.

The model to be applied is;

$$R_i = (Leasepymnt_x + Misc\ Mgnt\ Cost_x + Govt\ OS\ Cost_x)_{baseyr}$$

Where **R<sub>i</sub>**-The total Government investment cost

**Leasepymnt**- This is the annualized lease payments.

**Govt OS Cost** is the annual Government operating and servicing cost.

**Misc Mgnt Cost**-the miscellaneous costs that are forgotten in the lease calculation i.e oversight costs on lease

**Baseyr**- is the economic base year in which life cycle costs are compared.

**X-years** of the vehicles life where operating and servicing costs are realized.

The study looked at the relationship between the growth in Kenya and the inflation to come up with the discount rate. The inflation rate was measured by Consumer Price Index for the last five years (2011-2016). The analysis compared leasing and direct purchasing in consideration of leases, uncertainty in costs and payment timings.

Time value of money was considered when discounting each year's net revenues. Discounting is expected to give present value of each amounts and the leasing payment is paid monthly although computation will be done based on yearly totals.

The study also sought to do comparison of performance contract targets previously without the benefit of leased assets and the current situation with focus on the achievements and any challenges.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the demographic characteristics of the respondents and the research findings from the study. It analyses the data systematically focusing on the study objective: to determine the relationship between leasing model of asset financing versus buying and performance of public agencies. Two methods of data collection are used namely semi-structured questionnaires, and use of secondary data. Analysis is done using statistical package of social sciences (SPSS) and thematic analysis. The findings are presented as a report of the questions answered as secondary data obtained from the respondents.

#### **4.2 General Information**

##### **4.2.1.0 Respondent's Data**

A total of 16 questionnaires were administered but only (13) were returned while (3) were not returned. This represented a response rate of (81.5%). Sekaran, (2006) observes that high response rates (over 80% of the target sample in a social research) assure more accurate research results.

#### 4.2.1.1 Gender

| <b>Gender</b> |              | Rate of    | Percent      | legitimate   | Collective   |
|---------------|--------------|------------|--------------|--------------|--------------|
|               |              | recurrence |              | Percent      | Percent      |
|               | Male         | 6          | 46.2         | 46.2         | 46.2         |
| Valid         | Female       | 7          | 53.8         | 53.8         | 53.8         |
|               | <b>Total</b> | <b>13</b>  | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

**Table 4.1 Gender**

The findings indicate that there were more female respondents than their male counterparts. 7, which makes 53.8% of the respondents were female while the rest, 6, making 46.2% were male respondents as shown in the Table 4.1 above.

#### 4.2.1.2 Designation

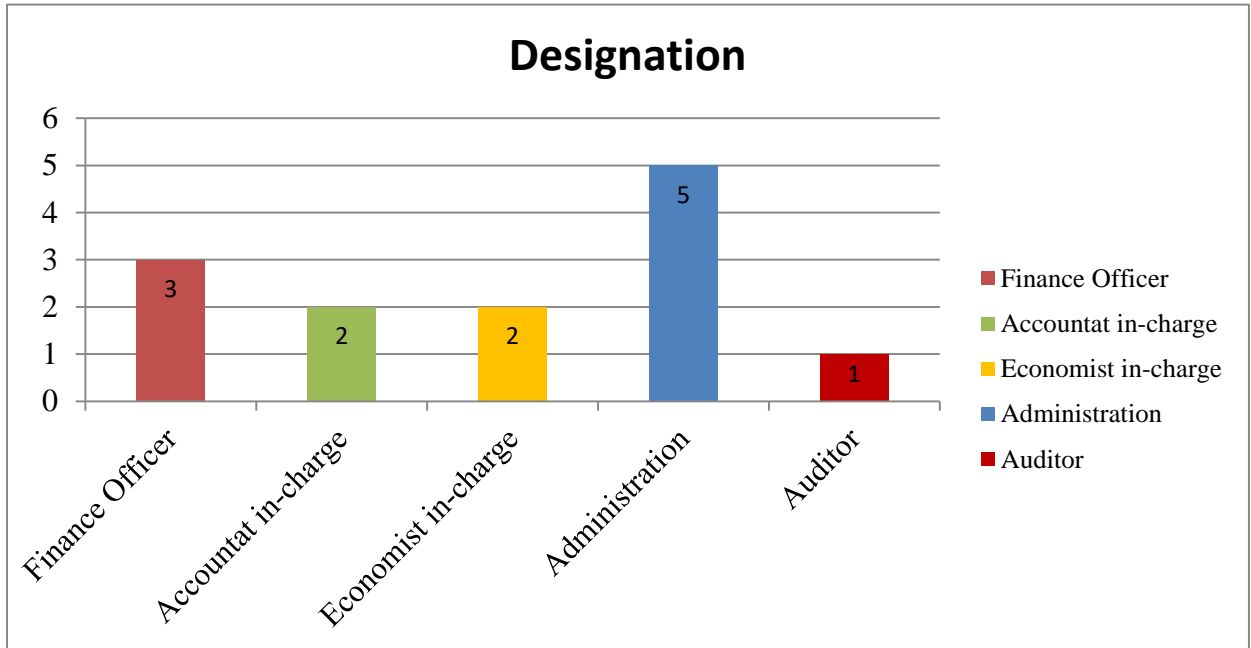
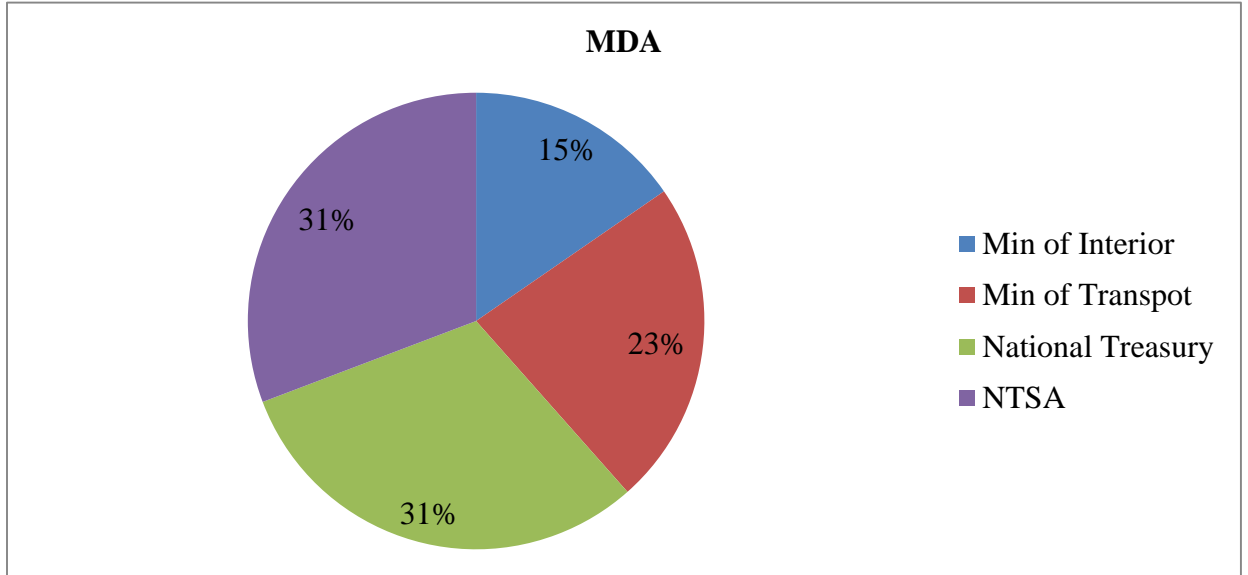


Table 4.2 Designation

The Table 4.2 above shows the various designations for the respondents. From the table above, 3, 23.1% are Finance Officers, 2, 15.4% are Accountants and Economists in charge, the largest of the respondents are Administration Officers who make 5, 38.5%, while we had 1, 7.7% of the respondents being auditors.

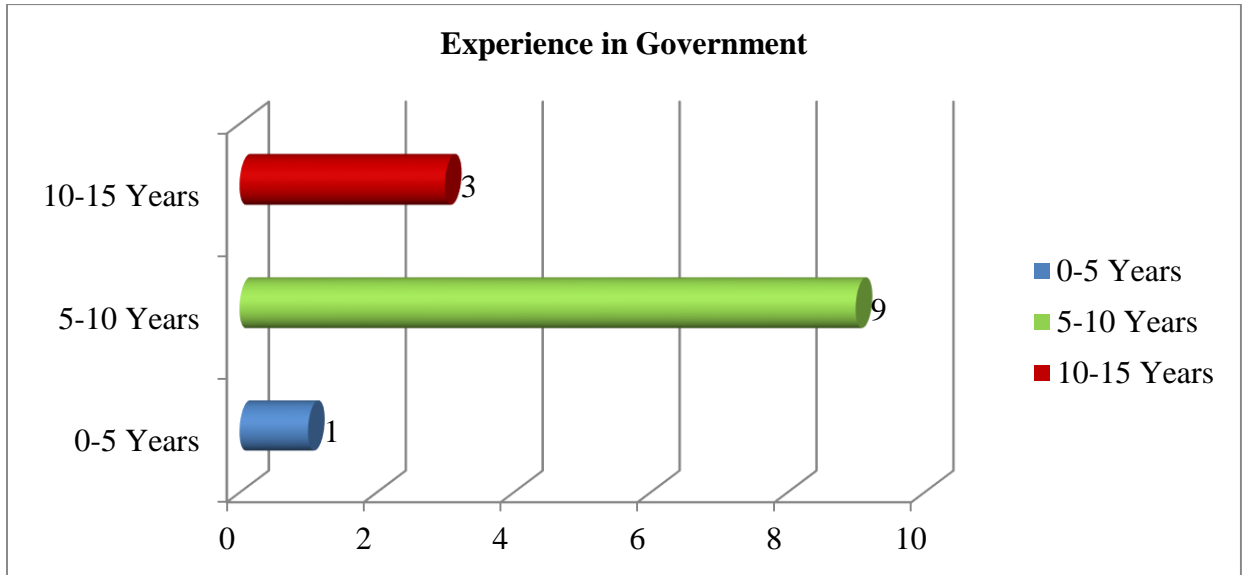
#### 4.2.1.3 MDA



**Figure 4.1 MDA**

The Figure 4.1 above shows the various MDAs from where my study obtained information from. The findings indicated that from the National Transport and Safety Authority, I had 31.0% of all respondents, which was same as the National Treasury, 23% of the respondents were from Ministry of Transport and the rest, 15% interviewed were from the Ministry of Interior and National Coordination.

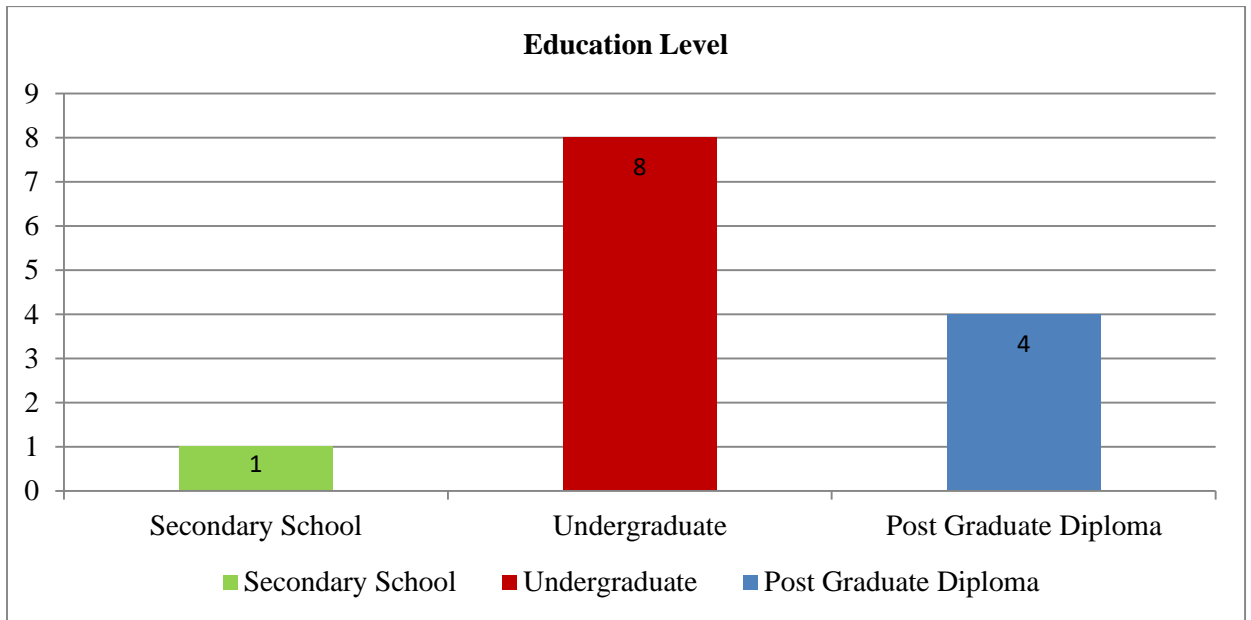
#### 4.2.1.4 Experience in Government



**Figure 4.2 Experience in Government**

The study sought to find out the experience of the respondents in government service. 3, 7.7% of the respondents have an experience of between 10-15 years in government service, 9, making 69.2% have an experience of between 5-10 Years while , only one interviewed had an experience of less than 5 Years of government service. This is as shown in the Figure 4.2 above.

#### 4.2.1.5 Education Level

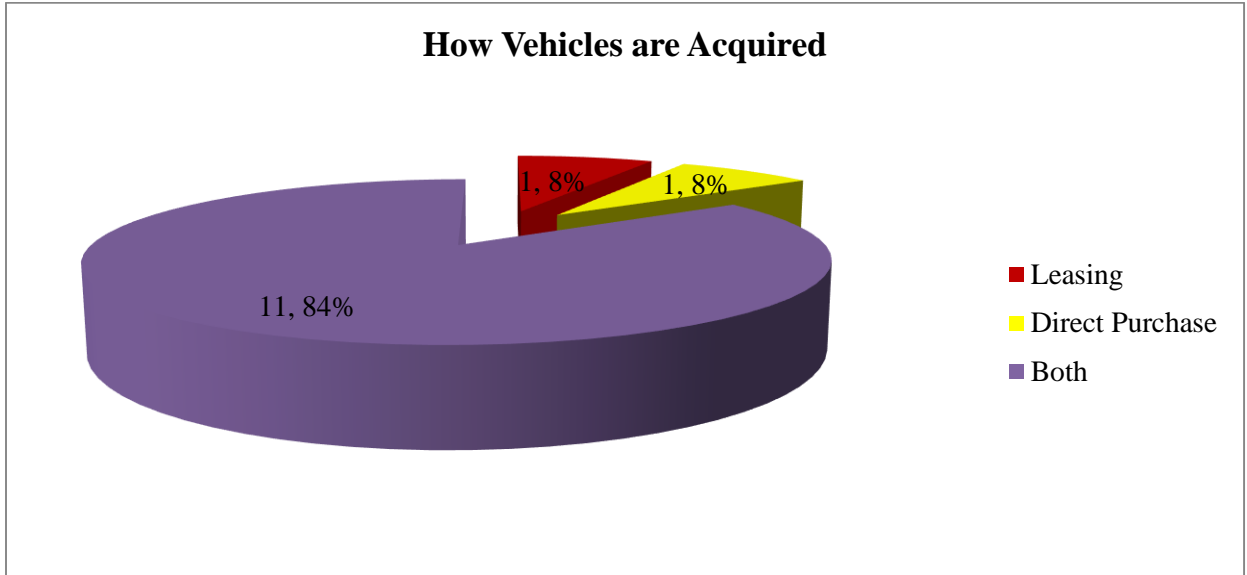


**Figure 4.3 : Education Level**

The findings indicated the education levels of the respondents. The Figure 4.3 above shows that only 1, making 7.7% of the respondents has Secondary school qualification, 8, 61.5% of all the respondents are undergraduates, and 4, 30.8% of the respondents is post graduate diploma qualified.

### 4.3 Method of Vehicles Procurement

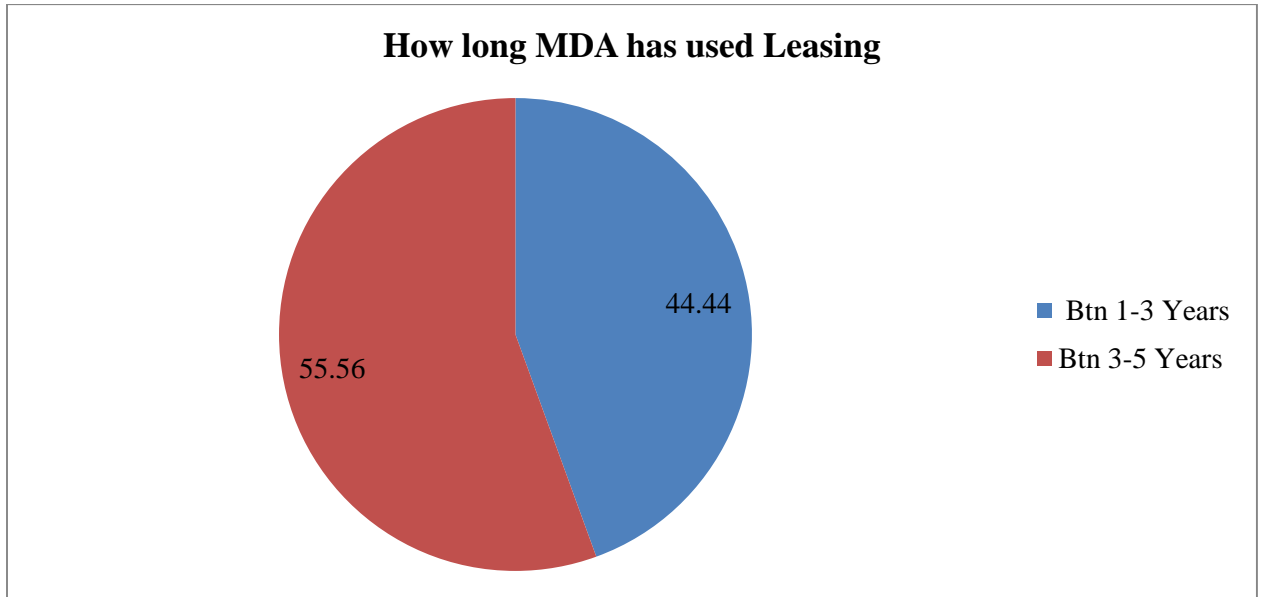
#### 4.3.1 How Vehicles are acquired



**Figure 4.4 How Vehicles are acquired**

My study sought to find out how vehicles are acquired in the various MDAs in government. From the Figure 4.4 above, it is evident that many, 84% are acquired through both leasing and direct purchasing. However, so far Leasing and direct purchasing have 8% of the responses each. This shows that many MDAs use both methods.

### 4.3.2 How long MDA has used Leasing

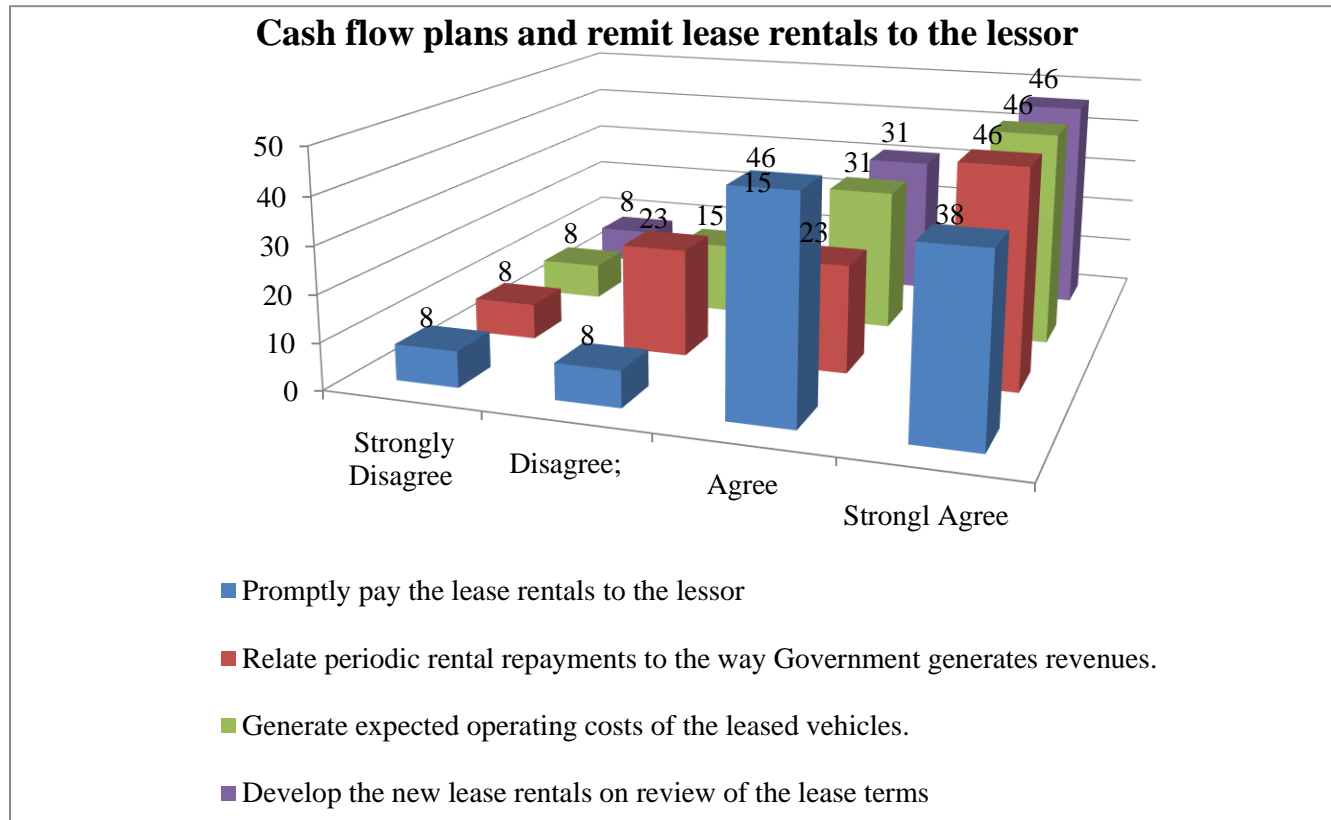


**Figure 4.5 How Vehicles are acquired**

On the question of how long the various MDAs have used leasing as a method of acquiring government vehicles, 44.44% of the respondents stated that they have used leasing for a period of between 1-3 Years, while the rest who make 56.56% indicated that they have used leasing for a period of between 3-5 Years. This is as shown in the Figure 4.6 above.

## 4.4 Aspects of Lease Competence

### 4.4.1 Cash flow plans and remit lease rentals to the lessor



**Figure 4.7 Cash flow plans and remit lease rentals to the lessor**

When you prepare cash flow plans and remit lease rentals to the lessor, the study sought to establish how well the various aspects are done. The Figure 4.8 above 8% strongly disagrees, and the same percentage does agree on the fact that the when preparing cash flow plans they promptly pay the lease rentals to the lessor, 23% agree, while 38% of all the respondents strongly agree.

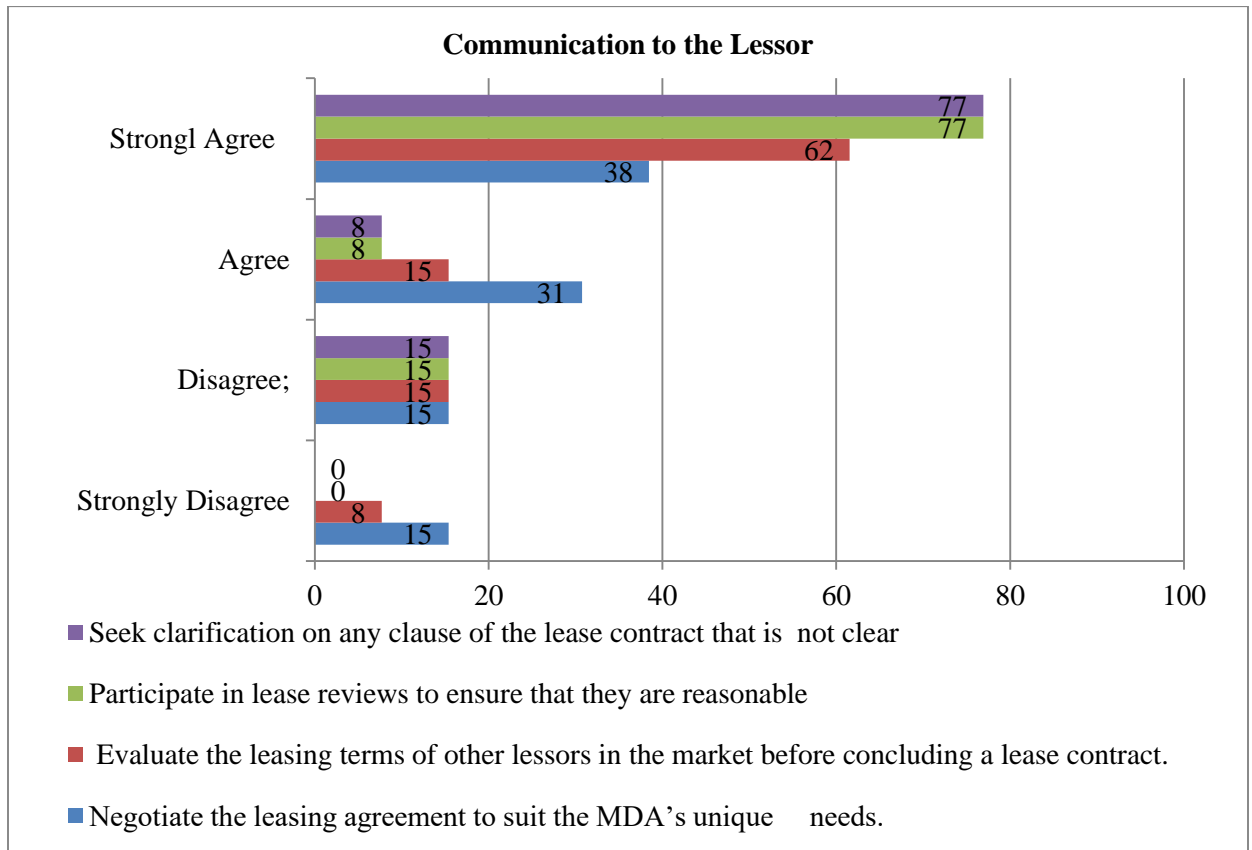
The same Figure 4.9 above indicates that 8% of respondents stated that when preparing cash flow plans, they relate periodic rental repayments to the way the Government

generates revenues, a fact that 23% of the respondents Disagreed, and the same 23% agreed, while 38% strongly agreed.

The study also sought to establish how well the MDAs generate expected operating costs of the leased vehicles when preparing cash flow plans. 8% strongly disagreed on the fact, 15% disagreed, 31% agreed and 46% strongly agreed that when preparing cash flow plans, generate expected operating costs of the leased vehicles.

Finally from the Figure 4.10 above, the study finds out how the MDAs develop the new lease rentals on review of the lease terms. 8% of the responds strongly disagreed, 15% disagreed, 31% agreed and 46% strongly agreed that when preparing cash flow plans, they do develop the new lease rentals on review of the lease terms.

#### 4.4.2 Participation in lease agreement negotiations and reviews



**Figure 4.11 Participation in lease agreement negotiations and reviews**

The study sought to establish how the respondents participate in lease agreement negotiations and reviews. 15 % strongly disagreed that they participate in lease agreement negotiations and reviews, 15% disagreed on the same, 31% agreed while 38% strongly agreed. 8% strongly disagreed that they evaluate the leasing terms of other lessors in the market before concluding a lease contract, 15% both disagreed and agreed, and 38% strongly agreed.

The above Figure 4.12 shows that 15% of all respondents disagreed, 8% agreed, while 77% strongly agreed that they participate in lease reviews to ensure that they are

reasonable. On the lease contract, 15% disagreed, 8% agreed, and 77% of the respondents strongly agreed that they do seek clarification on any clause of the contract that is not clear.

#### 4.5 Communication to the Lessor

| Aspects of Lease Competence  | Strongly Disagree | Disagree | Agree | Strongly Agree |
|--|-------------------|----------|-------|----------------|
| Disclose all the necessary information to the lessor                         | 8                 | 8        | 62    | 23             |
| Report to the lessor any serious damages that occur to the leased vehicles.  | 0                 | 8        | 62    | 31             |
| Keep a record of all written communications with the lessor.                 | 0                 | 23       | 38    | 38             |
| Inform the lessor of any anticipated delays in remittances of lease rentals. | 8                 | 8        | 38    | 46             |
| Inform the lessor of substantial changes in the use of the vehicle           | 8                 | 15       | 31    | 46             |

**Table 4.3 Communication to the Lessor**

The Table 4.4 above shows the findings based on the communication between the various respondents and the lessor. 8% of the respondents both strongly disagree and agree on the fact that they disclose all the necessary information to the lessor, 62% agree while 23% strongly agree on that. 8% disagreed, 62% agreed and 23% strongly agreed that they report to the lessor any serious damages that occur to the leased vehicles. Out of all the

respondents, 23% disagreed, 38% agreed while 38% strongly agreed that they keep a record of all written communications with the lessor. 8% of the respondents strongly disagreed, as the same number disagreed, 38% agreed while 46% strongly agreed that they inform the lessor of any anticipated delays in remittances of lease rentals. The study established that 8% of the respondents disagreed, 15% disagreed, 31% agreed while 46%strongly agreed that they inform the lessor of substantial changes in the use of the vehicle.

#### 4.5 Lease Structure

| <b>Lease rentals, Reviews and Incentives</b>   | <b>Strongly Disagree</b> | <b>Disagree</b> | <b>Agree</b> | <b>Strongly Agree</b> |
|--|--------------------------|-----------------|--------------|-----------------------|
| The lease rentals paid cause financial constraints to the MDA.   | 31                       | 38              | 15           | 15                    |
| The lease rentals depend on the revenue cycle of the MDA.  | 23                       | 23              | 38           | 15                    |
| Does the MDA pay lease rentals promptly?   | 15                       | 15              | 23           | 46                    |
| There is a provision for rent review(s) in lease agreement.  | 0                        | 23              | 46           | 31                    |
| The lease reviews are done usually after a long period.  | 15                       | 54              | 31           | 0                     |
| MDA participates in the review process of the lease agreement.   | 0                        | 8               | 54           | 38                    |
| MDA's Lease agreement provides for grace periods.  | 15                       | 0               | 54           | 31                    |
| MDA is allowed to rearrange the terms of lease rental payment with the lessor in case it is necessary. | 0                        | 54              | 23           | 23                    |
| There are ceilings to rent increases on review   | 15                       | 23              | 8            | 54                    |
| <b>Length of lease term</b>  |                          |                 |              |                       |
| The length of the lease agreement is spread over most of the useful life of the motor vehicles.        | 0                        | 15              | 62           | 23                    |
| The length of MDA's lease agreement is long.   | 15                       | 8               | 54           | 23                    |
| <b>Operating costs</b>   |                          |                 |              |                       |
| Lessor meets the operating costs of the leased motor vehicles.   | 15                       | 0               | 38           | 46                    |
| The operating costs of the leased asset(s) keep changing.  | 38                       | 0               | 15           | 46                    |
| The operating costs are included in the lease agreement.   | 8                        | 15              | 38           | 31                    |

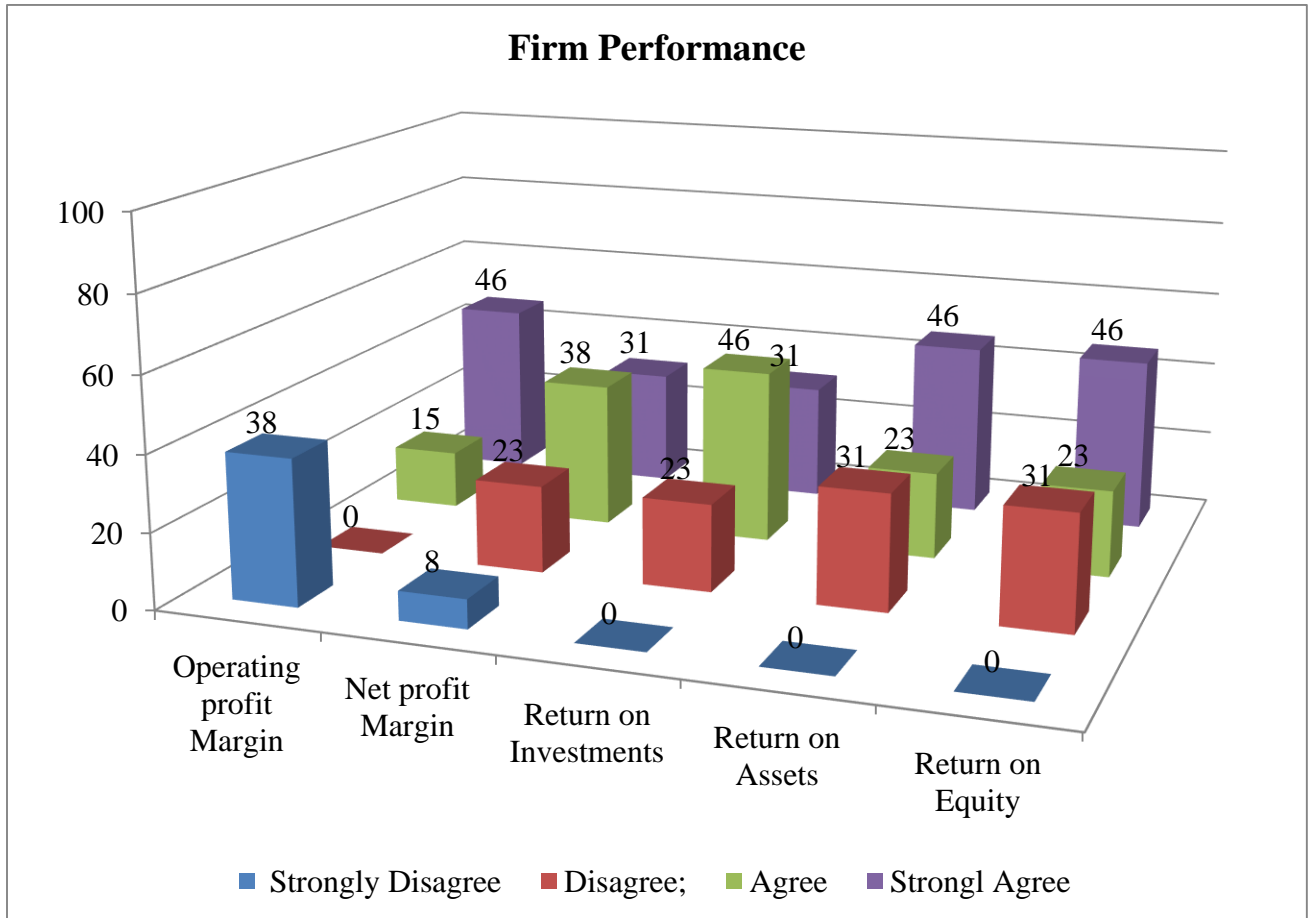
#### **Table 4.5 Lease rentals, Reviews and Incentives**

The study sought to find out the state of the MDAs on Lease rentals, Reviews and Incentives. The Table 4.6 above shows that 31% strongly disagreed and 38% agreed that the lease rentals paid cause financial constraints to the MDA, with only 15% both agreeing and strongly agreeing on the same. 23% both strongly disagreed with the same percentage of all respondents disagreeing that the lease rentals depend on the revenue cycle of the MDA. 35% and 15% agree and strongly agree that the lease rentals depend on the revenue cycle of the MDA. Majority of the respondents 46% agreed that there is a provision for rent review(s) in lease agreement, 31% strongly agree while 23% disagree that there is a provision for rent review(s) in lease agreement. The study further sought to establish whether or not the lease reviews are usually done after a long period. The findings indicate that 15% of my respondents strongly disagreed, 54% disagreed, and 31% agreed that the lease reviews are done usually after a long period. During the reviews, the study sought to establish if the MDAs participate in the review process of the lease agreement. The table above shows that majority who make 54% of all respondents agreed, 38% strongly agreed while 8% disagreed that the MDAs participate in the review process of the lease agreement.

Based on the Length of lease term the study found out that majority, 46% agreed strongly that Lessor meets the operating costs of the leased motor vehicles, with 38% having agreed on the same. However, only 15% strongly disagreed. The study also found out that the operating costs of the leased asset(s) keep changing. Many of the respondents, 46% strongly agreed, 15% agreed, while 38% strongly disagreed that the operating costs of the leased asset(s) keep changing. Majority of the respondents, 38% agreed, as

31% strongly agreed that the operating costs are included in the lease agreement. The rest of the respondents 15% and 8% disagreed and strongly disagreed that the operating costs are included in the lease agreement.

#### 4.6 Firm Performance



**Figure 4.13 Firm Performance**

The Figure 4.14 above show the performance of firms in the study, with leasing in practice.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This study sought to find out the relationship between leasing model of asset financing versus buying and performance of public agencies. Specifically, the study sought to investigate the whether the KPS improved in service delivery since getting more vehicles financed through leasing, if the NTSA been able to cover more ground in its operations since getting more vehicles financed through leasing, out whether the National Treasury been able to save any funds from its leasing program, and to find out the difference in Government owned vehicles and the leased ones in terms reliability considering the servicing, maintenance and operation costs

This chapter summarizes the gathered information and the arithmetical treatment of scrutiny, discussion with reference to precise objectives/research questions and assesses the meaning of results by evaluating and interpreting them. The conclusions relate directly to the specific objectives/research questions. The recommendations refer to the suggestions for further study, or proposals for change, or both.

#### **5.2 Discussion of Findings**

The study results indicated that the majority of the respondents were females as opposed to males in the respective ministries in the study. This is a good implication of the constitutional enrollment, although it was expected otherwise. Out of them, majority of the respondents were administrators, followed by Finance officers. This means therefore that the information is reliable since its sources are hands on. NTSA and the National

Treasury gave us the most information as they had bigger number of their respondents returning their questionnaires. Given that the two are in directly affected by the study, the information is deemed resourceful. It's therefore expected that concrete conclusions can be made.

Many respondents had an experience in government of more between 5-10 years. This period falls within the era the leasing was introduced, and since education for the respondents was of essence, findings indicate that most of the respondents were undergraduates, with a few with post graduate diplomas as well.

The study found out that both direct purchasing and leasing are commonly used methods when acquiring new vehicles by NTSA and KPS. While an equal number stated that leasing and direct purchasing are used, it is evident that a significant number of vehicles are both purchased directly and leased. This means therefore that there is still some doubt over the use of leasing, or, leasing s yet to fully be implemented by the government. This is so because the findings indicate that the MDA has used leasing for a period of between 3-5 years now.

For both the NTSA and KPS, the study has established that the leasing has a great positive impact. According to the findings, leasing as a method of acquiring vehicles for NTSA and KPS has ensured that the vehicles are well maintained. This makes sure that they are in good states of service, hence increasing efficiency and service delivery to Kenyans.

The study found out that the lease rentals paid do not cause financial constraints to the MDA. Although a significant number stated they do, majority of the respondents felt that

lease rentals do not cause financial constraints to the MDA. In fact, asked if they would recommend leasing, it's clear that many would do so. This is because they feel when vehicle are leased, there is high level of maintenance, keeping the vehicles in good shape. This increases efficiency of both the KPS and the NTSA. The respondents also stated that they would recommend Leasing as it ensures timely service delivery to Kenyans. However, a few respondents felt that leasing was cheap in the short run, but expensive in the long run, hence would not recommend. They argue that in the long run, you don't own the asset-vehicle.

## **5.2 Conclusion**

It is clear that both direct purchasing and leasing methods of acquiring vehicles are used widely in the various ministries e.g. the National Treasury, NTSA, and Kenya Police Service. Leasing however has a loud applause from many people and significantly, it is most preferred as per the findings. This is because it comes with several advantages. It's established that leased vehicles are well maintained, making them more efficient and hence increasing service delivery. People think that the maintenance is attributed to the lease agreement, pinning together the lessor and lessee, unlike vehicles directly purchased and owned by the various government agencies. They receive minimum maintenance due to no collaborative synergy to ensure its good state. Cost savings from a true lease will not be apparent when simply comparing the price of the lease to the price of the equipment. The savings and efficiencies come from improvements in the Vehicle life cycle, and are dependent upon the situation at the individual MDA. In some cases, purchasing will provide greater functionality and efficiency to the users, while in other situations, leasing may allow MDAs to leverage their information resources budgets more

effectively. Leasing vehicles may result in statewide savings, however, particularly in regard to asset disposal, where costs are not always borne by the agency disposing of the equipment

### **5.3 Limitations**

There were two main limitations in this study. One of the limitations was the timelines of the study which is not long enough to give a much better conclusion. While direct purchase has been practiced for a very long time, Leasing has been practiced in the last three to five years which is limited and therefore the results may be different if the timelines were much long. Accessing Government data related to leasing and performance is limited to only what is in public and therefore it cannot be said with certainty if the data classified as sensitive may have had the same conclusions if it was available for this study.

### **5.4 Recommendation**

The findings and conclusion above show that it is important for the government to adopt the best model out of the two available, direct purchasing and leasing. While both are being used, there is an alarming quest to use the leasing. The preference for the leasing has more merits than the corresponding direct purchases. I would encourage the government to adopt the use of leasing as it ensures vehicles are well maintained since there is a party to its ownership under the leasing agreement. This is further supported by the fact that maintaining the vehicles enhances service deliver and efficiency. However more data is required from the MDAs and government to ascertain the effectiveness of leasing since data available is not reliable enough for significant conclusion

## REFERENCES

Cooper, R, & Schindler, P. (2003). *Business Research Method*. Tata: McGraw-Hill.

Frank Z. and Goyal K. (2005) *Tradeoff and Pecking Order Theories of Debt*. Handbook of Corporate Finance: Empirical Corporate Finance (Handbooks in Finance Series, Elsevier/North-Holland)

G & C. Merriam Co. (1913). Noah Porter, ed. *Webster's Revised Unabridged Dictionary* (1913 ed.). G & C.

Matoke F. (2008): A survey of sources of finance for building construction firms in Kenya. <http://erepository.uonbi.ac.ke:8080/xmlui/handle/123456789/7918>

Mutheu S. (2012), *the influence of capital structure on firms' performance: A case of selected firm's listed in Nairobi securities exchange, Kenya*. Nairobi, Kenya  
<http://erepository.uonbi.ac.ke>:

Neuberger D. and Solvig (2012) *Leasing by small enterprises Department of Economics, University of Rostock, Ulmenstr. 69, 18057 Rostock, Germany*

Oko, A.E. & Hamilton O. (2013). *Strategies for Lease Volume Enhancement: Study of the Nigeria Lease Market 2001-2011 International Business Research; Vol. 6, No. 8; 2013 ISSN 1913-9004 E-ISSN 1913-9012* Published by Canadian Center of Science and Education

Salam (2013), *Effects of Lease Finance on Performance of SMEs in Bangladesh. International Journal of Science and Research (IJSR) ISSN (Online): 2319-7064 Volume 2 Issue 12, December 2013 [www.ijsr.net](http://www.ijsr.net)*

Simiyu (2013), *Determinants of lease financing decisions by non-financial firms quoted on Nairobi securities exchange, Kenya. Nairobi Kenya*

Slotty F. (2009): *Financial constraints and the decision to lease– Evidence from German SMEs* Goethe University Frankfurt, House of Finance, Germany.

Tarus K. (2013): *Factors that influence the growth of finance leases in Kenya. <http://erepository.uonbi.ac.ke>*

Mogire W.(2013): *Determinants of lease financing in Kenya: a case of small and medium enterprises in Kisii municipality. <http://erepository.ku.ac.ke>.*

## **APPENDICES**

African Manager

Nation Media Group

Ryce East Africa limited

Standard Group

The National Treasury