

THE LEASING- MANAGER INSTRUMENT TO IMPROVE COMPANIES PERFORMANCE

Carmen TURLEA^{a}, George-Aurelian TUDOR^b*

^a The Bucharest University of Economic Studies, Romania

^b The Bucharest University of Economic Studies, Romania

ABSTRACT

The need to highlight an organized business has always been one of the strengths of economic development at microeconomic level, as well as at macroeconomic level by way of prioritizing the activities, identifying and using the performance metrics and a management able to translate theory to practice.

As such, the performance of a company's management generates the interest of equity investors.

The main objective of this article is to substantiate the assumption that leasing is a key element in establishing a good market requirements-connected management, as well as to get acquainted with the implementation of the International Financial Reporting Standard 16-Leases, hereinafter referred to as IFRS 16, starting with 2019.

KEYWORDS: *leasing, management, performance, strategy.*

1. INTRODUCTION

The emergence and development of trading companies has been one of the elements that ascertain the evolution of modern human.

Maslow Theory is shining a light on how humans are satisfying their basic needs (need for food, water and shelter) than seeking to appease their secondary needs (like safety, consideration, respect, affiliation).

In its evolution, the modern human has tried to ease his daily living.

The economic growth has ascertained and is encouraging the development of all business areas, as well as a natural evolution of the adequate management of advantageous and adverse events and situations related to the activity of a trading company.

Management is the skill of leadership.

A trading company development relies on the growth of its indicators and assets. An efficient management is sanctioned by the whole of decisions and related-implementation actions taken in order to achieve performance indicators enabling the company's development and fulfillment of its objectives according to the wishes of the capital contributors.

Virtually, the evolution of the modern relies on the ability to lead and manage the day-to-day and future business in order to obtain results, near future or further gains, while smartly and professionally using various funding sources and professional reasoning application sources (Feleaga & Feleaga, 2007).

At the level of a company there are several funding sources for the two cycles, namely production and funding.

Funding can be obtained from own funds of the company or from drawn sources.

* Corresponding author. E-mail address: turleacarmen@yahoo.com

Thus, the main sources are related to the profit, increase of share capital, bank loans obtained based on various terms, grants or EU funds, external credits or direct equity investments and other types of funding.

One of these funding types, widely used in the context of the current economy, is the leasing.

In short, leasing is a special type of funding whereby the companies involved in the economic agreement shall undertake to comply with the terms and conditions mutually established.

The International Accounting Standard 17-Leases, hereinafter referred to as IAS 17, is defining the leasing as an agreement based on which the lessor grants to the lessee, for a payment or a series of payment, the right to use an asset during the agreed time interval.

Leasing is classified under two categories: financial lease and operating lease.

The financial lease can be identified depending on the option of transferring the ownership right-related risks and benefits.

Hence, the operating lease is any lease that is not a financial lease.

The use of lease of funding method, in either of the two categories specified above, has a different impact on the financial statements' reporting. Currently, the financial lease is registered in the balance-sheet while the operating lease is shown in the notes on the accounts.

Professional reasoning has distinguished the use of lease as funding method applied to achieve the objective of a company's incorporation, namely to obtain future economic benefits. The way in which a lease is used as funding method represents the added value of the company, starting with the qualified personnel employed by the company on the relevant date.

This article's main objective relates to the impact of lease use as funding method by developing an objective management complying with the wishes of the capital contributors, given that lately the trading companies have tried to strengthen their own management based on the corporate governance concept which highlights the way the management's actions and policies are presented and applied so that each capital contributor enjoys the same treatment regardless of his/her registered capital contribution share.

The financial growth of trading companies has also required an update of asset and liability assessment and reporting tools so that the accurate picture obtained will be used as a key element for establishing an adequate management strategy.

Consequently, this article aims at showing the new trends for reporting the lease in the financial statements as funding method, based on a new standard (IFRS 16) applicable as of year 2019.

The development of basis for measuring and reporting in the financial statements has generated positive aspects materialized in the desire for an accurate display of transactions and calculations that do not require a review of the base for each indicator, as well as negative aspects like the possibility to manipulate the indicators by way of said computing base options in order to obtain a remuneration according to the indicator efficiency.

2. DISCUSSIONS

Modern company evolution has generated various debates related to the current requirements' impact on companies, given the desire of shareholders for economic growth of each company shown, at the end of the year, by economic gains higher than those seen in the previous periods.

This evolution was also followed by the update of tools for reporting in the financial statements in order to present an accurate image of the transactions executed by the trading companies for the purpose of enticing prospective investors able to develop the foundations of an efficient management through the quality of products and services supplied, the organization and execution of daily activities and appealing to prospective clients.

The need to show an accurate image of transactions executed by trading companies, as well as the increase of performance indicators has determined a more and more pronounced use of leasing as

funding method via its options for payment spacing out during a time interval agreed by the parties involved (Vakhitov & Zamaletdinov, 2015).

The use of lease as funding method has enabled the development of companies based on the implementation of alternate investment strategies without requiring the freezing of large amounts of money in a certain area, so the management of each company being able to branch out in the desired directions.

A study carried out by (Wei-Ting et al., 2018) brings into question the method of management improvement by way of using the lease as funding and raising future economic gains higher as compared to the previous periods.

Management exercising range includes various research areas, 3 general ones being more prominent: management of processes, management of tasks and management of staff. Hence, with the support of management we are able to identify the tasks, objectives, business organization, human resources required to carry out day-to-day activities within a trading company. Based on the management of tasks we may identify the way tasks are assigned to each employee and we can assess the performance of company personnel activity.

The 3 above mentioned areas are focused on the staff by way of its organization, guidance and orientation to continuous professional development and correct implementation of management strategy at the level of companies.

According to a study carried out by (Sylvaine et al., 2017), airlines have seen the lowest growth rate between 1996- 2011 as compared to the other companies. Despite this result, some airlines have shown significant revenues. An interesting fact derived from this finding is that such airlines have obtained similar revenues regardless of the strategies they implemented.

The use of lease funding strategies by small and large companies has brought into the spotlight the fact that small companies will lease more than the large companies given that the first do not possess a high funding capacity and the leasing is a quick funding method. In terms of large companies, they prefer lower and fixed loan rates as compared to the above specified funding method. (Jane-Raung et al., 2013)

Clients' demand for updating the products provided by trading companies is also encountered in the software sector through two versions of product offers, namely: sale and funding by leasing. The need to develop a company based on strategies is absolutely necessary and, in this area, the lease is showing only a slight advantage by the fact that the product acquired pursuant to a leasing contract provides also the option of update and maintain at an affordable price. Virtually, the leasing is accompanied by a service package of which the users may benefit upon the software products purchase date. (Kunhao et al., 2018)

A study carried out by (Masaki, 2017) on the companies from Japan, the distinction between financial lease and operating lease has no bearing on the assessment of credit risk given that the operating lease is indicated in the notes on accounts and is analyzed in the credit risk assessment.

Empirical research on the approach of leasing within trading companies.

In order to evidence the leasing impact on the activities (performance) of trading companies we have conducted a review of the way leasing may influence the performance of a company management. This review includes a set of questions structured as a questionnaire.

The purpose of such questionnaire is to substantiate the conclusion that using leasing as funding method may be a fundamental element in the decision-making related to a company's funding.

The questionnaire is based on a set of 9 questions with various reply alternatives, and the respondents have been selected from an accounting company member of the Body of Expert and Licensed Accountants of Romania, hereinafter referred to as CECCAR. At the same time, the respondents have been selected from an age group between 26-35 years, a fact that can lend a wide exposure of reporting according to the International Financial Reporting Standards.

1. What age category do you fit into?

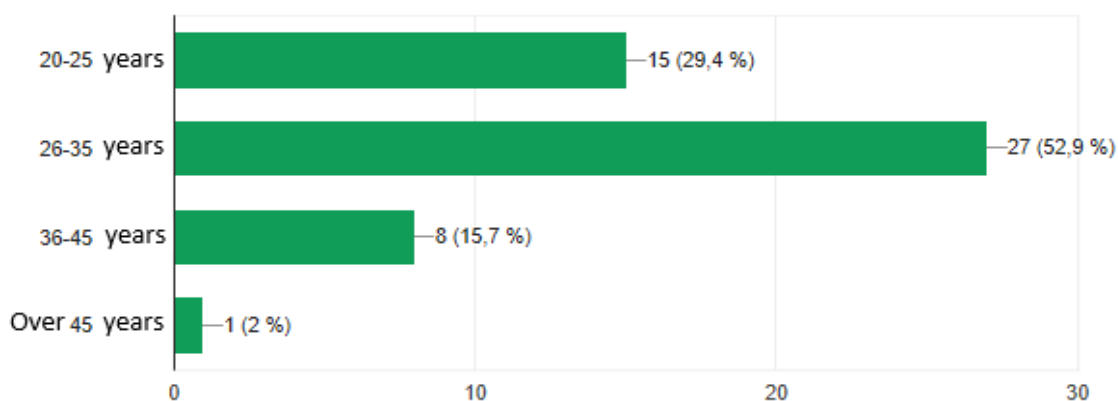


Figure 1. Age category

Source: authors

This first question is identifying the number of respondents, as well as the percent of age per each segment category.

Based on the filled-in questionnaire, we have identified an overwhelming percent for the 26-35 age segment (52.9%), which represents the professional development interval, as well as the ability to analyze and implement a higher risk as compared to the persons above 45 years of age (2%) who are not happy with this funding method. Due to these reasons, we may mention the lack of time, given that the experience acquired by such persons is directed towards other activities and we may also mention the existence of certain situations where such persons were not willing to fill-in the questionnaire. Another segment reviewed is the one between 20-25 years of age (29.4%) which represents the interval for education and settlement of acquired knowledge. The last segment reviewed is between 36-45 years of age (15.7%) which represents the interval when people are focusing on establishing a personal business based on the experience they acquired.

2. Did you use /are you using/ do you consider using leasing as financing form?

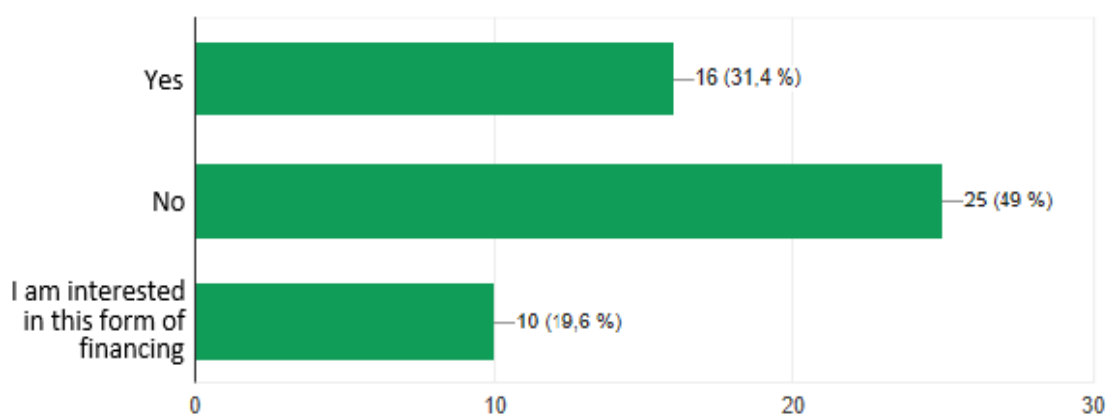


Figure 1. Using leasing as financing form

Source: authors

This chart is showing the rating of funding method after the respondents have been divided into two large categories, namely: those who are using or are interested and those who do not wish to use the leasing as funding method.

By reading this graph per age segment, we are able to identify young persons, as well as those above 45 years old who do not wish to use this funding method, while the persons with the age between 26-35 are using or are interested in using the leasing.

3. As a potential investor, would you seek a company using leasing as financing form?

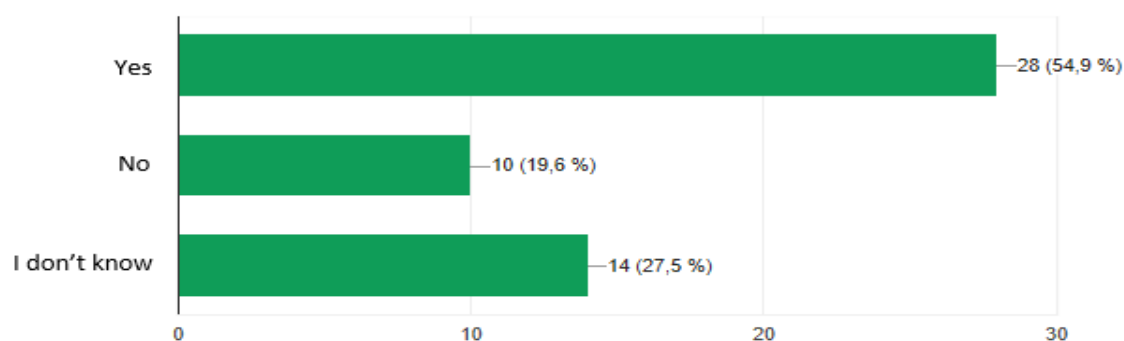


Figure 3. Potential using leasing as financing form

Source: authors

The above chart is revealing a higher percent in favor of using the leasing as funding method to the detriment of persons with age between 20-25 who are at the beginning of their career and a denial to the detriment of persons over 36 years old who are highly prudent.

4. If you are at the head of a company, which would be the optimal share of leasing use in total fixed assets?

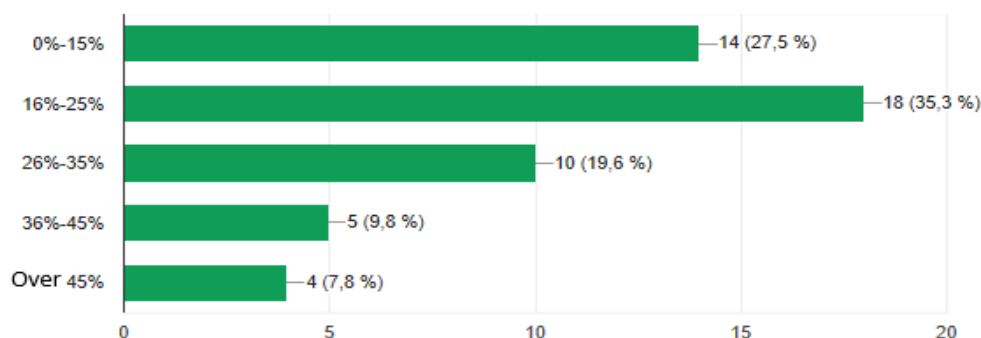


Figure 4. Optimal share of leasing use

Source: authors

In the case of this chart, the situation is slightly diversified in the sense that leasing represents an integral part of the development strategy, a fact that is influencing differently each manager, depending on his/her openness to risk. Persons with the age between 20-25 years and older than 45 are using the leasing on a smaller scale. In the next segment we are identifying a high share with various strategies shown by the following four percent. Persons with the age between 36-45 years are using the lease as funding method in a more balanced way (16-25 %)

5. Do you consider necessary the presentation of the operational leasing in the balance-sheet?

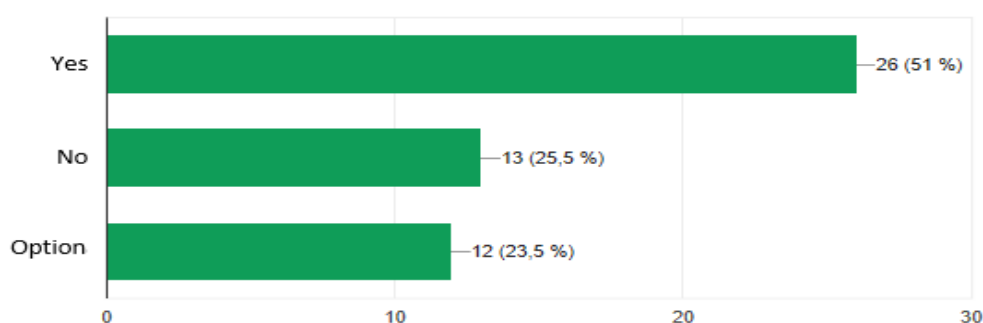


Figure 5. Presentation of the operational leasing in the balance-sheet

Source: authors

The lease development strategy is also impacting the lease reporting in financial statements. Among the persons who filled-in this questionnaire, little over half (51%) have replied that the operating lease has to be reported to in a balance-sheet. A significant share of the 20-25 age segment (25.5%) has replied that the operating leasing should not be reported in the balance-sheet, while the persons with age over 36 years (23.5%) have indicated, based on the experience acquired, that including the operating lease in the balance-sheet should be optional.

6. Can leasing be a component part in the elaboration of the development strategy of the company?

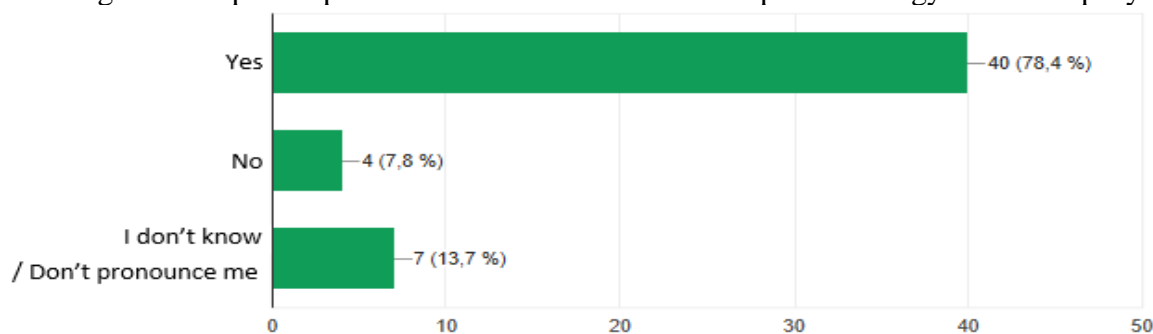


Figure 6. Leasing a part in the elaboration strategy

Source: authors

With regard to the leasing as company development strategy, we are identifying a high percent of respondents (78.4%) who have indicated that the leasing is a company development tool, while only 4 persons (7.8%) have replied that this is not a development option. At the same time, we have found that some of these respondents (13.7%) have not provided any reply related to the lease as an element of company development.

7. Do you consider that the operational leasing should influence the liquidity indicators?

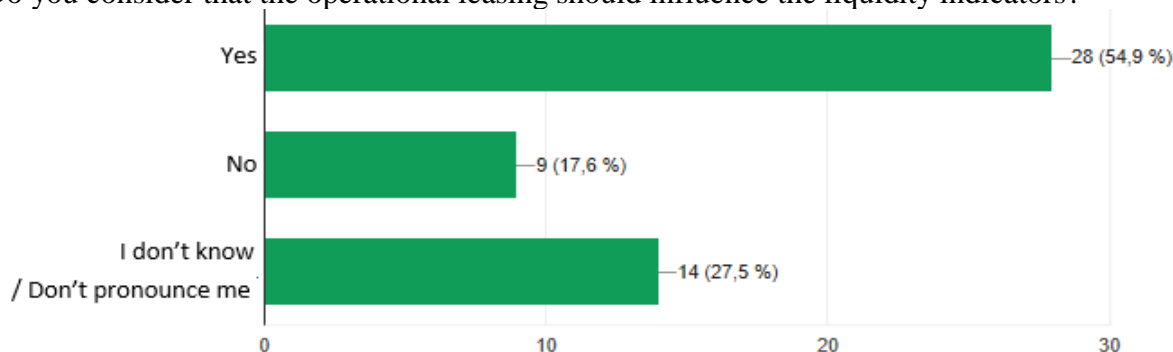


Figure 7. Operational lease influence

Source: authors

The above chart is showing that the operating lease must influence the liquidity indicators due to its inclusion in the balance-sheet. Also, another percent of the respondents have declared that they are unable to provide an opinion due to the fact that they have not thoroughly read the economical-financial analysis given that they were not directly interested in this aspect or that they are still college students. At the same time, we also see respondents who do not think that the liquidity indicators should be affected by the fact that the operating lease is an expense for the relevant period.

8. Taking into account the new changes on the implementation of IFRS 16, do you consider it to be a clearer emphasis of leasing by its classification in short-term leasing and long-term leasing?

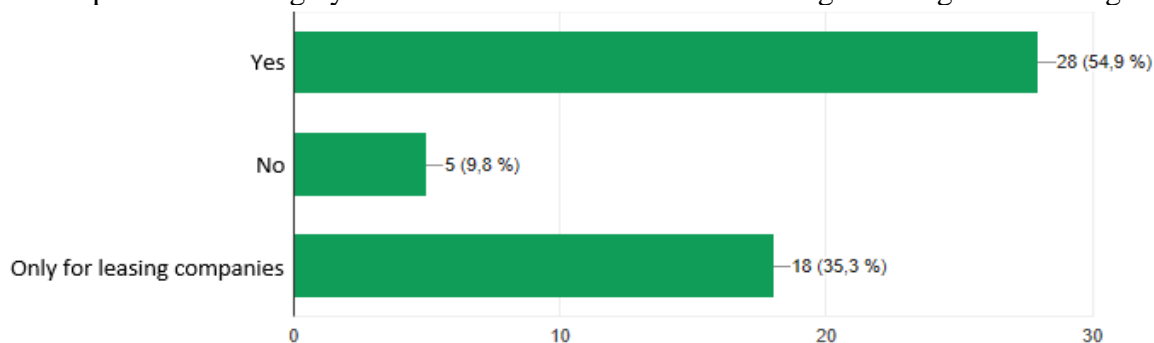


Figure 8. New changes on the implementation of IFRS 16

Source: authors

The change of leasing on short term and long term was indicated by 54.9 % respondents which reveals that, in the companies development strategy, we may also identify the lease as funding method, hence the lease must be specified in the balance-sheet and explained in the notes on accounts in order to be better understood. 5.98% of respondents have replied that is not necessary to specify the lease on short term and long term given that the balance-sheet includes a classification of debts per their reimbursement due date. 35.3% of respondents are considering this classification as required in the case of companies operating in the area of leasing, in order to underline that the lease is used to perform daily production activities and lease transactions for the purpose of obtaining gains.

9. Shall a sole reporting system generate the occurrence of an additional cost incident on leasing as well?

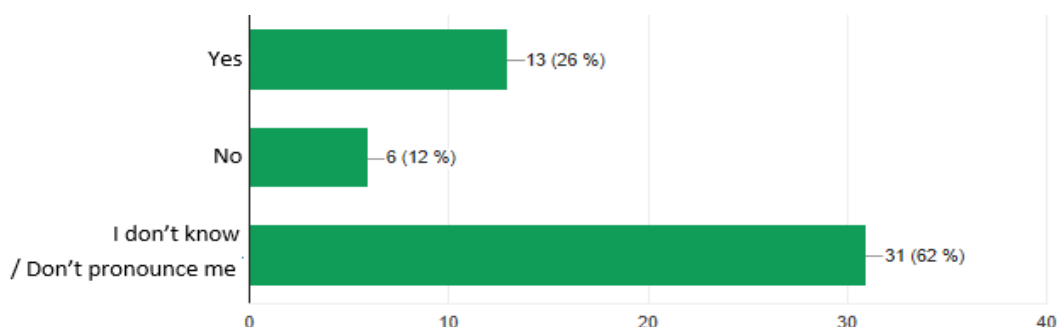


Figure 9. Additional cost

Source: authors

This question is clearly highlighting that 62% of respondents do not know/or are not able to provide an opinion with regard to the incurrence of an additional cost related to the lease. 26% feel that a single reporting system will indirectly cause the incurrence of an additional cost due to the

restatements that the trading companies will have to do. Only 12% feel that the cost for using the lease as funding method will not increase due to the application of professional reasoning. Based on this question, we have identified 50 respondents given that one person has omitted to provide a reply to this question.

3. CONCLUSIONS

The purpose of this article is to showcase the use of lease as key funding element and to establish an adequate and updated management complying with the market requirements by way of updating the tools of reporting in the financial statements, as per the International Accounting Standards-IAS /International Financial Reporting Standards-IFRS.

The trading companies have tried to diversify their transactions and drafting of own company management strategies in order to obtain higher economic benefits as compared to previous periods. According to the research conducted by (Feleaga & Feleaga, 2007), we may say that the professional reasoning was the base for management development, provided that this reasoning is not used to manipulate the financial statements.

The research conducted by (Vakhitov & Zamaletdinov, 2015) recalls that the evolution of modern society is based on the management performance in developing the company by way of diversifying the supply, so that the capital contributors are able to enjoy higher economic benefits as compared to the previous periods. This is also recalled in the study carried out by (Wei-Ting et al., 2018).

Based on this research we can say that the study carried out by (Jane-Raung et al., 2013) is partially adequate but does not explicitly says the method of approaching the management strategy, because the management approach method (prudent or risky) may determine the approach method related to the leasing funding.

The use of leasing is needed in the development of each business sector given that it does not require the freezing of amounts for the procurement of economic benefit-generating products and implementation of new strategies for diversifying the product and service supply.

These strategies are based also on the financial statements, and IFRS 16 is establishing the reporting of leasing in the balance-sheet by classifying it on short term and long term (lessor) as of year 2019. This intent of including the lease in the balance-sheet was also seen in the study performed by (Masaki, 2017), a fact which can evidence a continuous evolution of tools for financial statement assessment and presentation.

This study is helping us to understand the key lease-funding elements based on the management's efficiency in reviewing and actually applying the company's business, so that the professional reasoning will accurately indicate the financial statements, followed by the establishment of new efficient management strategies.

According to the above mentioned questionnaire we can conclude that leasing is an adequate funding method supported by the implementation of an efficient management, while the level of leasing use as funding method is represented by the openness to risk.

The desire for an efficient management has determined multiple debates regarding the way of operating leasing reporting so that a correct company development strategy can be implemented.

At the same time, the publication of a new standard (IRFS 16) has satisfied the need to update the tools for reporting in the financial statement, tools based on the professional reasoning with powerful impact on the performance of a company's management.

Taking into account the aspects presented so far, it is our opinion that the leasing is an economic growth factor included in the management strategy of a company, in its accounting policies, as well as in their adequate implementation.

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